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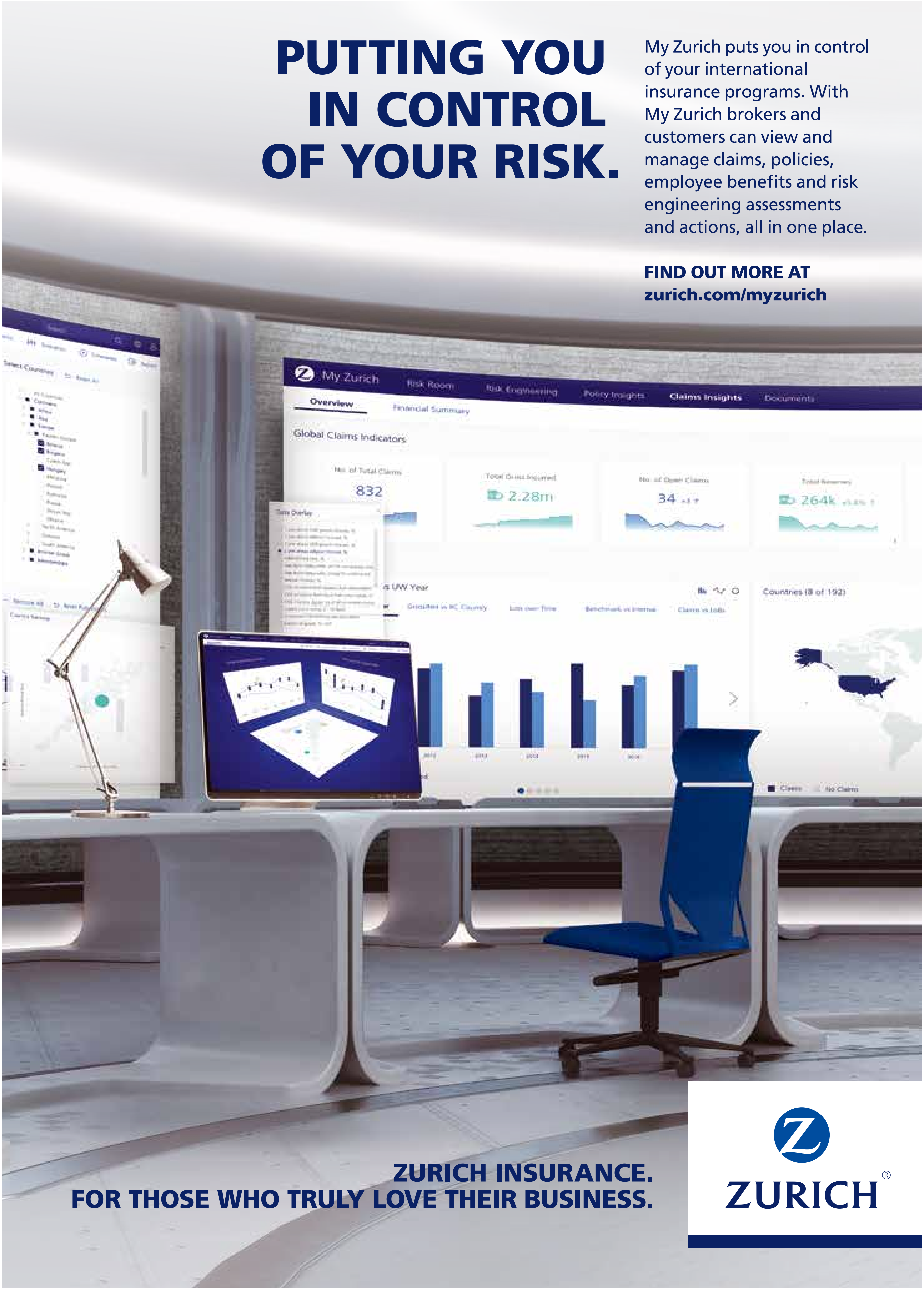
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Commercial Risk
Insurance & Risk Management News

GLOBAL PROGRAMMES REPORT 2020 – EUROPE

Introduction

There is no doubt that we are living in uncertain times. Personally and professionally, many of us face huge upheaval and change as the Covid-19 pandemic disrupts our way of life. Risk and insurance managers are of course at the forefront of the battle corporates are waging against this new enemy.

Given the circumstances, it is no surprise that the certainty, consistency and cost-savings – or three Cs – offered by centrally managed global insurance programmes remain highly attractive to risk and insurance managers in Europe and across the world.

These risk transfer programmes clearly offer organisations big advantages, but they are not easy to implement. Navigating the regulatory, tax, political and economic landscape to deliver the three Cs remains tricky, and demands risk managers work more closely than ever with their business partners.

To help our readers deliver, Commercial Risk recently held its two-day virtual 'Global Programmes Europe 2020 – Gaining Maximum Benefit' conference. It attracted more than 550 attendees, and risk and insurance managers were provided with the latest intelligence on how they can best structure, design and manage their programmes.

This report covers the conference, sponsored by AIG, Allianz, AXA XL, Axco, MAXIS Global Benefits Network, Swiss Re Corporate Solutions, TMF Group, Willis Towers Watson and Zurich. It also takes a wider look at some of the big issues facing multinational programmes.

We hear how attention is turning to future trade agreements for DIC/DIL covers as discussion with the IAIS stalls, and report calls for the insurance industry to come up with a standard financial interest clause wording. There is an in-depth look at the state of the global insurance market and how buyers can best navigate these choppy waters.

Unsurprisingly, there is focus on Covid-19 and what it means for multinationals and insurance. And we also look at some of the traditionally tricky areas facing multinational insurance buyers, such as how best to control the programme and different approaches to local policies, plus much more besides.

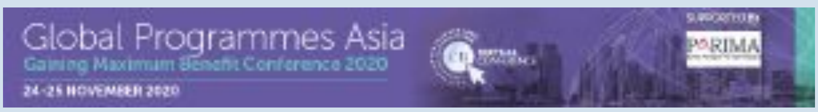
We hope you enjoy the read…

Ben Norris
Global Programmes Report editor

FOLLOWING the success of the European leg of our Global Programmes conference, we are bringing the event to an Asian audience on 24-25 November, with Parima as our event partner.

This virtual conference will see an expert panel of industry specialists look at the leading global programmes issues from the perspective of the southeast Asian risk manager.

For more information and to register please go to **www.commercialriskonline.com/event/gpsing20** or email Annabel White: **awhite@commercialriskonline.com**



GLOBAL PROGRAMMES
REPORT 2020 – EUROPE

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Attention turns to trade agreements for DIC/DIL as IAIS discussions stall

◇ REGULATION

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As discussions with the International Association of Insurance Supervisors (IAIS) struggle to gain traction, there is a real opportunity to get multinational insurance regulations, including DIC/DIL arrangements, on the table in a growing number of bilateral or regional trade agreements taking place around the world, according to risk and insurance experts.

This could improve cross-border insurance regulations in the longer term and work as a blueprint if and when multilateralism returns, they add.

Risk managers have long been frustrated by the myriad of regulations around the world that make placing compliant and cost-effective multinational insurance programmes more difficult than they would like. Via the International Federation of Risk and Insurance Management Associations (Ifrima), they therefore launched a campaign to lobby the IAIS to push local regulators to see the value of DIC/DIL cover and accept them as part of their insurance regulations.

Rising rotectionism across the globe has resulted in a focus on bilateral or regional trade agreements

But this has been a struggle and there has been little progress to date, said Franck Baron, chairman of the Pan-Asia Risk & Insurance Management Association (Parima).

"We tried at global level with Ifrima to start a sensible conversation on DIC/DIL with the IAIS. It took about two or three years to identify the right people, and we are not getting any traction as yet to be honest, despite all our efforts," said Mr Baron, who is also group deputy director of risk management and insurance at International SOS.

SIGNS OF HOPE

But it seems there is another potential solution on the cards.

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Protectionism across many parts of the world has seen multilateralism recede, with knock-on effects for multinational insurance regulations. Multilateralism has been replaced by a focus on bilateral or regional trade agreements, and these are showing signs of hope for buyers of cross-border insurance.

US risk management association RIMS, for example, has successfully lobbied its government to include DIC/DIL in future trade agreements.

The UK and Switzerland recently issued an encouraging joint statement pointing towards an improved cross-border market for services in areas of banking and insurance, particularly for wholesale and sophisticated clients.

And Airmic in the UK is now lobbying its government to consider DIC/DIL acceptance in any post-Brexit agreements with countries like the US and Switzerland.

"We think there are some opportunities for the UK at the moment, with the ability to agree our own free trade agreements. Maybe our eyes should turn to some of the activities at our sister association RIMS in the US and DIC/DIL agreements that could be put in a free trade relationship with the US or other countries. We have been lobbying the UK government to take a look at that and think it should be something on their agenda," said Airmic's deputy CEO and technical director Julia Graham.

Madeleine Morris, head of international programmes legal and tax at Zurich Insurance, explained that bilateral or regional trade agreements allow for more flexibility and accountability of the parties involved. Crucially for insurance buyers, these agreements are increasingly including negotiations that relate to services, which could encompass insurance, particularly between sophisticated parties. "This is where we have a chance as an insurance community to make our voice heard," said Ms Morris.

Julia Graham

"We tried at global level with Ifrima to start a sensible conversation on DIC/DIL with the IAIS.... we are not getting any traction as yet to be honest, despite all our efforts"

"There has been success by RIMS to bring this issue and cross-border-friendly trade commitments onto the negotiating table on the US side. It will be interesting to see if the UK government will include similar commitments in its negotiating position for any future UK-US free trade agreement. This would set an important standard of principle for other countries to follow and would ensure international insurance programmes are better able to meet the needs of their multinational customers," said Ms Morris.

"These examples could offer an opportunity for the insurance community to obtain a more consistent regulatory playing field, albeit in a slow and incremental manner. The inclusion of insurance commitments in bilateral trade agreements could have an important impact on cross-border insurance in the longer term. In fact, looking even further ahead, themes in these bilateral trade agreements, should they actually happen, could provide a new benchmark when we finally see a return to multilateralism," added the regulatory expert.

She said it is vital that trade negotiators and regulators understand why this issue is so important for multinational companies and global trade.

"People need to appreciate the value to firms in their own market, to see how this reciprocal trade agreement could be beneficial to them." said Ms Morris.

And she stressed that the voice of insurance buyers is critical. "The voice of the customer is particularly relevant here, because when we speak as insurers it doesn't always carry the same weight. I think having the voice of a combined insurance industry would go a long way to developing this dialogue," she concluded.

Sharma urges insurance industry to deliver standard FINC wording

◇ STANDARD

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Praveen Sharma, managing director of Marsh's insurance regulatory and tax consulting practice, said the time has come for the insurance industry to come together and agree on a standard financial interest clause (FINC) wording to end some of the confusion and ambiguity over their use.

A FINC covers the parent company for a loss at a subsidiary and seems an increasingly viable solution for multinationals when local insurance regulations forbid non-admitted insurance. They are used to insure the parent company's balance sheet for losses originating in foreign countries on top of exhausted local policy limits and conditions.

FINCs are a provision within a global or master policy that can step in where difference in conditions (DIC) and difference in limits (DIL) solutions do not work.

The clauses have been around for more than a decade but there has been heated discussion in the international commercial insurance market about the legal viability and practical feasibility of the FINC concept ever since.

Although there has been a lack of test cases, experts have argued that the fact claims have been paid under a FINC and not come to court suggests the principle works. And a ruling last year in India that upheld a FINC used by Adidas has given further validation to the concept.

This ruling will have given risk managers more confidence to use FINCs. But there are still many different FINCs used by insurers, which potentially makes them less appealing for customers that are seeking contract certainty and want to know they will work.

Mr Sharma has therefore called on the insurance industry to collaborate and come up with a standard FINC wording for the benefit of insureds.

Marsh's Praveen Sharma said it is time to avoid ambiguity and confusion over whose wording is better or worse

COME TOGETHER

"Given that the concept has been around for 14 years and multinational companies are now getting more familiar with its use, the time has now come for the market to come together and collaborate to come up with a standard wording that will work for all classes of risks. It can be achieved. I believe this would eliminate confusion and ambiguity, and provide contract certainty for multinational companies when addressing multinational insurance programmes," said Mr Sharma.

"It is about time now to avoid this ambiguity and confusion over whose wording is better or worse. We are not competing with FINCs. Please can we can come to a landing on a master wording that the insurance market can then adapt and use, and so can the brokers? My request to the insurance industry is: please let's collaborate and come to a landing on one standard wording we can all use and then move along. This is my request," he added.

While FINCs clearly have a role to play in multinational programme compliance, they are not without limitations. For example, an overseas subsidiary is not insured under a FINC and there is no local premium allocation, with any loss payable to the parent/policyholder.

A FINC may not be suitable for all classes of business, for example personal liability such as Side-A D&O. It is important therefore for clients and their brokers to weigh up all the pros and cons when considering using a FINC.

And Mr Sharma told insurance buyers to accept that FINCs are not a panacea for global programme compliance but do offer regulatory protection.

It is one arm of many facets of compliance, he said, and should be used as "a matter of last resort once you have exhausted all possibilities of structuring the global programme to manage the three Cs – total cost of risk, coverage issues and then compliance".

Global programmes offer protection from tough market but smoothing now harder to come by

◇ MARKET

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Global programmes offer risk managers the chance to spread risk and smooth some of the difficulties they face in the hard insurance market but as conditions toughen for buyers in an increasing number of regions around the world, this opportunity is now harder to come by, according to experts.

Speaking at our 'Global Programmes Europe: Gaining Maximum Benefit' two-day virtual event, risk management association heads told delegates that multinational insurance programmes are an option to explore in the hard market.

> **"Global programmes do** offer an opportunity in the hard market if it is the right thing for your business"

"I think global programmes do offer an opportunity in the hard market if it is the right thing for your business. They are not the solution for everything, but their whole purpose is to spread risk and you should be able to use a global programme to smooth some of the impacts we are seeing," said Julia Graham, deputy CEO and technical director at UK risk management association Airmic.

GOOD SOLUTION

Fellow panellist Adri van der Waart, president of Dutch risk management association Narim and corporate insurance manager at Arcadis, said global programmes are potentially a "good solution" as the insurance market hardens.

"Local programmes are likely the first to be hit in this hard market, so working on global programmes you can spread risk globally and it can give you something to discuss with brokers and insurers," he said.

However, the panellists explained how insurance markets in the UK, mainland Europe and Asia are all now difficult for buyers and therefore Ms Graham noted that the smoothing potential offered by global programmes has receded.

"But there is definitely a place for them, particularly if you can manage the taxation issues and work needed to make them compliant," she added.

Ms Graham explained that the insurance market is increasingly difficult for UK buyers and is getting worse.

"If you compare the latest Airmic survey to the one in January 2020, premium rates are still increasing, restrictions in cover are still increasing and options to go to other markets are still reducing," she said.

Adding: "So it is not a great picture and I don't really know ultimately where this is all going to lead. My biggest concern is that our members generally find the market difficult and the situation is still deteriorating."

She said some of the behaviour currently on display from insurers in the hard market is not what buyers expect from long-term partners and trust is being eroded.

"Insurance is built on a foundation of trust and once you start to lose trust, you devalue partnership. It is not a great prospect. So I remain optimistic but the writing on the wall is not great," she continued.

STRUGGLE

Mr Van der Waart said market conditions are similar in continental Europe and partnership is "eroding" there too.

"I see insurers stepping out of business on the same conditions as before and insurance managers have problems to get their programme filled," he said. "D&O, professional indemnity and crime insurance are a real fight and struggle to get programmes filled and successfully renewed," he added.

"There is definitely a question mark as to whether insurers want to follow us as they did in the past," continued Mr Van der Waart.


Adri van der Waart

"We have had ten years of soft market conditions. So, some increases are acceptable and reasonable, but the size right now in many areas is difficult"

He stressed that buyers need to be realistic after many years of soft market conditions and accept that hardening is needed in some areas. But he said it's the rate of change that is causing concern and problems.

"We have had ten years of soft market conditions. So, some increases are acceptable and reasonable, but the size right now in many areas is difficult," he said.

Frank Baron, chairman of the Pan-Asia Risk & Insurance Management Association and group deputy director of risk management and insurance at International SOS, said the market is also bad in Asia.

He said pricing is increasing, coverage is restricting and capacity is significantly shrinking. "We are talking about a hardening market that does not support businesses for traditional insurable risks," he told delegates.

He added that there is little room for discussion with insurers during renewals and is particularly concerned that risk management and good loss histories are not being taken into account.

"I am not happy that clients who have established very strong risk management protocols and loss-prevention plans, and have a good loss history, are treated the same as those that do not," he said.

Mr Van der Waart agreed it is frustrating that well risk-managed companies with no claims history still face "enormous" premium increases.

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Allianz

Insurance prices up 20% globally with rises across all regions in Q3

Biggest increase since Marsh index began

◇ PRICING

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Global insurance prices rose 20% in the third quarter with all regions around the world, apart from Latin America, recording double-digit increases during the period, according to Marsh's latest index. These are the biggest increases since the index began tracking data in 2012 and the broker expects the hardening trend to continue into 2021.

Marsh's third-quarter Global Insurance Market Index shows that all regional rises were equal to, or greater than, those in Q2. Pricing was up across the board for the eighth consecutive quarter, and the composite average cost of insurance around the world has now risen every quarter for three years.

The highest Q3 increases were seen in the UK at up 34%, followed by the Pacific region up 33%, the US up 18%, continental Europe up 15%, Asia up 12% and Latin America 9%.

The index's average Q3 year-on-year composite global price rise of 20% follows an increase of 19% and 14% in the first two quarters of 2020, respectively.

Global property rates rose 21% in the third quarter, after jumps of 19% in Q2 and 15% in Q1.

The biggest increase came in global financial and professional (finpro) lines, which were up a whopping 40% on average in the last quarter. Finpro prices rose 37% in Q2 and 26% in Q1.

Casualty pricing was more stable and up 6% in Q3, following a rise of 7% in the preceding quarter and 5% in the first, according to the index, which predominantly tracks large accounts.

Commenting on the findings, Lucy Clarke, president of Marsh JLT Specialty and Marsh Global Placement, said: "Challenging conditions continue to exist across many parts of the insurance marketplace. Uncertainty, particularly related to Covid-19, and loss experience in many lines have both contributed to this three-year trend of increasing insurance costs. For many clients, these conditions are occurring at a time when they can least withstand them, and are leading many companies to rethink their insurance buying patterns, including increasing retentions, reducing limits and modifying policy terms and conditions. As we expect these challenging conditions to persist into 2021, we are committed to ensuring we leave no stone unturned when it comes to the best outcomes for our clients in this market."

The highest Q3 increases were seen in the UK

UK

The UK saw the biggest third-quarter increase of 34%. Hardening is accelerating after a rise of 31% in Q2 and 21% in Q1.

UK property pricing was up 20%. Hardening is picking up speed here too, with more than 80% of Marsh clients facing increases in Q3. In general, larger clients faced higher increases – of between 25% and 30% – than midsized firms, which tended to see rises of between 10% and 15%.

UK casualty pricing was up 6% in Q3, with increases fairly similar for each quarter in 2020. Pricing increases were generally higher for mid-market clients.

Overall, public and products liability showed the highest increases, with average pricing up 13% for mid-market clients and 8% for large buyers. Employers liability pricing increased in the mid-single digits.

But UK finpro lines saw the biggest increases, with an eyewatering 67% rise in costs, driven largely by D&O. Public company D&O continued to dominate pricing, with increases averaging more than 100%.

Marsh said more than 40% of clients adjusted retentions or limits to offset price increases. It added that economic uncertainty due to

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Covid-19 added to the challenging market.

UK cyber pricing increased 17%, as increased frequency and severity of claims affected prices.

PACIFIC

After the UK, the Pacific region saw the biggest increases in Q3 of 33%, according to Marsh's index. This follows a rise of 31% and 23% in the preceding quarters. Property was up 31% in the third quarter and casualty 11%.

Finpro costs rose by 49%, with D&O increases dominating. Marsh said many public companies faced D&O increases of more than 100%.

The broker added that D&O policy wordings typically underwent numerous edits to mitigate pricing impacts and a notable reduction in appetite from insurers continued.

It added that there were reduced limits on many public companies' D&O programmes as a result of clients' unwillingness to accept price increases and a lack of available capacity.

US

Year-on-year US pricing was up 18% in Q3. This is the same as the preceding quarter but higher than the 14% in Q1. Marsh said there was firming in the majority of lines.

US property pricing was up 24%, with 85% of renewing Marsh clients experiencing an increase. US property pricing has now increased for 12 consecutive quarters.

Generally, larger clients with more than $1m in premium experienced higher increases, of about 35%, than smaller firms, which faced 20%.

The average cost of Q3 US casualty cover was up 8%. Large and complex umbrella excess risks continued to see the greatest increases, generally ranging from 30% to 60%, although bigger rises were seen.

Marsh said limits on primary general liability policies trended higher, to address actions from lead umbrella insurers to attach at higher levels.

US auto pricing increased 7%, but workers compensation fell by 3%.

US finpro insurance prices increased by an average 28% in the third quarter, driven by D&O, which was up nearly 60%.

Pricing in the public D&O market was up more than 50%, and more than 90% of clients saw an increase. Marsh said price increases occurred even as many clients raised retentions and reduced limits.

US employment practices liability pricing rose nearly 10%, with increases tied to Covid-19 issues. Cyber pricing increased 11%, the largest rise since 2016.

EUROPE

Third-quarter price increases of 15% in continental Europe were the same as Q2, following a rise of 8% in the first quarter.

Property was up 21% and for the eighth consecutive quarter. Pricing continued to accelerate, driven by complex placements and cat-exposed programmes.

All buyers experienced increases. Those in major countries – including France, Germany, Italy and Spain – experienced double-digit rises.

Marsh said pressure on rate and limits on capacity drove increased use of traditional wholesale markets in London and Zurich, as well as demand for alternative structures. Insurers worked to apply communicable disease and cyber-related exclusions in the quarter, it added.

Like elsewhere, third-quarter continental European casualty price rises were less acute at 5%. General liability and excess lines led the increases, particularly for companies with North American exposures.

European finpro pricing rose by 24%, with insurers selective in their approach and willingness to deploy capacity. Price increases for D&O liability continued for major programmes in distressed sectors or with US exposure, as larger buyers faced the biggest hikes.

Lucy Clarke said uncertainty, particularly related to Covid-19, and loss experience in many lines have contributed to the three-year trend of increasing insurance costs

ASIA

Meanwhile, average prices were up 12% in Asia, after rises of 9% in Q2 and 6% in Q1.

Property pricing was up 18%, with multinational programmes and large placements seeing the largest increases. Cat-exposed business in the region saw double-digit increases and a continued reliance on international markets for support, said Marsh.

It added that international insurers pushed for property increases across Asia, while domestic insurers remained somewhat insulated from global losses and were competitive in comparison.

Asia casualty costs were up just 1% in Q3 and have been stable for three years.

Meanwhile, finpro cover in the region rose 18%. Marsh said a reduction in capacity, particularly from global insurers, contributed to price increases. Again, US-listed D&O risks were the most affected, with some price increases as high as 100%.

LATAM

Latin America saw the smallest price rise of 9% in Q3, compared with 8% in the second quarter and 6% in the first. Property cover was up 15% and finpro 26%.

Property prices rose in all major Latin American countries and were impacted by Covid-19, with increases above 25% common, said Marsh. The largest increases were seen in Brazil and Chile.

D&O prices showed significant rises, with several large clients experiencing hikes above 50%. Brazil, Chile and Colombia all reported large pricing increases.

In the one bright spot for multinational insurance buyers, Latin American casualty pricing fell by 4%. Marsh said this was influenced by rates in auto liability, with pricing down 5% to 15% in Argentina, Colombia and Mexico.

General liability pricing varied across the region, with Brazil and Mexico stable, and Chile and Colombia reporting increases up to 15%.

Flexibility key to global programme success in hard market

◇ MARKET

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Risk managers must be flexible with their global programmes in the hard market to best balance consistency and certainty of coverage with cost and the requirements of local entities, experts advise.

A panel debate at Commercial Risk's recent 'Global Programmes Europe 2020 – Gaining Maximum Benefit' conference considered what risk managers, insurers and brokers need to do to ensure global programmes deliver. Discussion quickly turned to the hard market and what impact it will have on programme design.

Whether by their own choosing to keep costs down, or a requirement from insurers, many insurance buyers are increasing their deductibles in the hard market. But risk managers were warned that on global programmes this runs the risk of leaving local entities exposed under a master policy.

They were therefore advised to think carefully and be flexible when it comes to adjusting deductibles so subsidiaries aren't carrying more risk than they want, or are left, in essence, uninsured.

FLEXIBILITY

Sabine Frehen, insurance manager at global food company Upfield, told delegates: "There must be that flexibility because you don't want to give your local entity a deductible that renders them uninsured… if you are declaring your local entities essentially uninsured because you have negotiated a nice and efficient premium from a global perspective, you are solving one problem by making another."

The other option is to allow certain subsidiaries to buy their cover locally with deductibles that make sense to them. Buying local also makes sense for entities that simply struggle to pay the premium organised by head office.

The hard market is having an effect on global programme design

But Ms Frehen said consistency of cover is the best argument for having a global programme, so this decision must be weighed up carefully.

"You want to know what people are buying and from a claims perspective you want to know what is covered," she said. "So overall, a global programme is my preference, but you should allow flexibility for local companies to say, 'this simply doesn't work for me'," she added.

Fellow panellist Diana Diffendarfer, global service and

"There must be that flexibility because you don't want to give your local entity a deductible that renders them uninsured"

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solutions leader in North America for Willis Towers Watson, said allowing flexibility within a multinational programme is vital for smaller entities in your organisation around the world.

"Maybe this means allowing for lower deductibles at the local level but taking the higher deductible at the master-programme level. There are different approaches to embracing some of the smaller subsidiaries. Allowing that flexibility but still maintaining control gives you that consistency of coverage and confidence in your programme," she said.

Ayleen Frete, head of multinational, regional unit London and Nordics at Allianz, said it is important that insurers pay attention to their risk consulting services as retentions increase in the hard market. This will help clients boost their risk management and mitigation, she said.

And with global capacity down, it is more important than ever that insurers understand their clients' exposures, continued Ms Frete. It is also critical that renewals are started early and insurers share their risk appetite as soon as possible, she continued.

"We can provide alternative risk transfer solutions, which, perhaps in this difficult time, might be a combination of multiple coverages across multiple years that could be a benefit for certain clients"

Ms Frete added that insurers must differentiate themselves on service and deliver innovative global programme structures to help clients cope with tough market conditions.

"We can provide alternative risk transfer solutions, which, perhaps in this difficult time, might be a combination of multiple coverages across multiple years that could be a benefit for certain clients. We can also help clients benefit from reinsurance solutions even if they do not have captives. Those are different ways we can make sure we are on top of our clients' risk exposures even during a hardening market and limiting of capacity," said Ms Frete.


Ayleen Frete

LOCAL LIMITS

Discussion moved onto whether multinational carriers will reduce local limits in the hard market. Matthew Latham, head of global programmes and captives at AXA XL, assured risk managers that this certainly isn't the plan at his firm.

"Fundamentally we are not changing the limits that are issued for local policies. We firmly believe clients should get the right protection they need locally, so the claim can be paid locally," he said.

Adding: "If the lead insurer needs to place more co-reinsurance to take less share of the overall programme, that is one thing, but it shouldn't impact the local limits."

For his part, Matthias Helmbold, head of technical and services at MAXIS Global Benefits Network, said data remains the big challenge for global programmes.

"Timings of access to data is key. Pluracy of data is vital. This requires a big push from stakeholders and participants. Whether that is the captive, networks like ours, the local insurers or the fronting insurers. This is something where we all need to play a role to become better at having the data at our fingertips, because this ultimately allows us to do the business," he said.

Baron warns brokers to improve 'unacceptable' behaviour in hard market

◇ BROKERS

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Franck Baron

Leading risk manager Franck Baron has warned brokers that some of their behaviour in the hard market, particularly since the outbreak of Covid-19, is "unacceptable" and has been noted by insurance buyers.

Mr Baron, who is group deputy director of risk management and insurance at International SOS and chairman of the Pan-Asia Risk & Insurance Management Association (Parima), also said buyers are unhappy that insurers are failing to reward risk management during renewals as portfolio analysis breaks down.

SUFFERING

The vastly experienced Mr Baron said insurance buyers are "suffering" in the hard market, which has accelerated since the outbreak of Covid-19.

He explained that pricing is on the rise, coverage is shrinking and capacity is down significantly.

Mr Baron and many other leading risk managers have complained about the behaviour of insurers in the hard market. They have been criticised for making last-minute changes to renewals, a lack of communication and blanket increases that don't make much sense to clients, among other things.

But Mr Baron also said brokers are not covering themselves in glory as far as buyers are concerned.

He said some have been taking advantage of market hardening to boost their own revenue, rather than putting clients first.

"I have witnessed individual behaviours, such as the hardening market helping brokers to free some additional revenue without considering that their clients are suffering financially from Covid-19 and how they can help. We have witnessed this from several large organisations," said Mr Baron.

"The way certain people have behaved in this very difficult and challenging economic environment to beef up their own revenue stream is not acceptable, but has been noticed," he said.

"The way certain people have behaved in this very difficult and challenging economic environment to beef up their own revenue stream is not acceptable, but has been noticed"

CONCERNED

Mr Baron also said there is little room for discussion with insurers during renewals and is particularly concerned that risk management and good loss histories are not being taken into account.

"I am not happy that clients who have established very strong risk management protocols and loss-prevention plans, and have a good loss history, are treated the same as those that do not," he said.

He added that the market has lost its grip on any portfolio analysis. "When you have a proper risk management programme in place, this is not valued by insurance. This is where we are very upset," said Mr Baron.

Pandemic has muted direct impact on global programmes

◇ PANDEMIC

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Insurers have faced myriad claims related to the Covid-19 pandemic but as Ayleen Frete, head of multinational, regional unit London and Nordics at Allianz Global Corporate & Specialty (AGCS), summarises, the direct impact on global programmes has so far been muted.

"As a result of the Covid-19 outbreak, AGCS has predominantly faced exposures from entertainment policies (event cancellation, disruption of film production) and, to a lesser extent, from non-damage business interruption (BI) extensions (property and mid-corporate lines of business)," she said.

"However, in relation to global programmes, standard property/BI policies or programmes do not provide coverage as physical damage is normally required as a trigger for BI losses. Similarly, entertainment policies do not typically require global programmes. So, the pandemic is not directly impacting our global programmes. In any case, coverage has to be evaluated individually in line with agreed terms and conditions in the policy," she added.

LOW IMPACT

Matt Latham, head of global programmes and captives at AXA XL, agreed: "The pandemic hasn't significantly impacted what's covered in global programmes. We're still offering the same lines of coverages as before. However, to avoid unintended coverages, we've instituted a Covid-19 exclusion, as has the rest of the market."

"The pandemic hasn't significantly impacted what's covered in global programmes. We're still offering the same lines of coverages as before"

"I'd also add that while some insurers are making strategic decisions around certain lines of business – for example, reducing limits and line sizes and, in a few cases, exiting the line entirely – I don't see these as related to the pandemic.

"Instead, these decisions are being taken based on factors specific to that particular class of risk and the insurer's views about its long-term prospects in that market," he added.

Beware rising protectionism affecting insurance regs post-Covid

◇ PROTECTIONISM

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Experts warn that rising protectionism was making cross-border insurance more difficult before Covid-19 struck and predict that the problem is only likely to get worse in the short to medium term following the pandemic, further undoing gains from past trade liberalisation.

Madeleine Morris, head of international programmes legal and tax at Zurich Insurance, painted a mixed picture for multinational insurance programme regulation, with the underlying trend pointing to increased focus on rate, risk retention and compliance where local policies are concerned. This is causing a "significant headache" and adding costs for insurers and their clients, she said.

Ms Morris pointed to increased or more onerous anti-money laundering and 'know your customer' requests, for example in China and CIMA countries. In addition, there has been an increase in local tariffs affecting local policies in certain territories such as India. There has also been the introduction of cash-before-cover requirements in countries like Kenya, as well greater focus on local retentions, with Korea introducing such recommendations this year.

Ms Morris added that some regulators have already reacted to Covid-19 with India, for example, introducing additional mandatory communicable disease exclusions in April and similar exclusions becoming market practice

> **"Retaliatory trade** restrictions could undo gains from past trade liberalisation; in fact we are already starting to see this between the US and China"

elsewhere, such as in the Middle East and north Africa.

There has also been talk in other areas that could impact global programmes and their regulations, such as business interruption coverage and pandemic pools, she added.

But the overall effects of Covid-19 on insurance regulations

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around the world thus far have been fairly "minimal" and, in some cases, new rules have been put on the back burner, the expert explained. These planned regulations may now take "some time" to implement, added Ms Morris.

ON THE RISE

However, she and others warned that protectionism was on the rise before the pandemic outbreak and was impacting cross-border insurance. They believe that Covid-19 is only likely to exacerbate this trend and make life more difficult for multinationals.

"Protectionism is a growing source of concern and has been increasing for some time now… it has been accompanied by a steady increase in trade restrictions," said Ms Morris. "Retaliatory trade restrictions could undo gains from past trade liberalisation; in fact we are already starting to see this between the US and China."

"We expect Covid-19 is only going to exacerbate the underlying increase in protectionism and economic nationalism. This is perhaps no surprise as it is what we saw after the global financial crisis," she continued.

"This shift from multilateralism to bilateralism will inevitably lead to a more fragmented and complex regulatory environment in the short to medium term," she added.

Ms Morris said that in this environment it is more important than ever for insurers to act as a safeguard against risk to protect their clients.

Matthew Latham, head of global programmes and captives at AXA XL, was in full agreement with Ms Morris.

Matthew Latham

"Protectionism has been a growing trend and might even accelerate once Covid -19 normalises"

"Protectionism has been a growing trend and might even accelerate once Covid -19 normalises. But we have not seen any evidence that the current Covid-19 crisis has increased the trend. In fact, we have seen less regulatory changes in the last six months, which is probably due to the challenges of working remotely and other priorities for regulators right now," he said.

"But when countries do get a chance to act, I wouldn't be surprised if we do see more regulatory changes coming in. I think some countries will see that as a way to try and cope with potential recessional and financial difficulties they will face," he added.

Mr Latham expects to see things like increases in local premium taxes and tariff ratings. Other new costs for multinational insurance buyers might come in the form of compulsory pandemic risk pools, he added.

"All of this will mean extra work for insurers, which will need to educate staff, brokers and clients with updated country reports and alerts. It will also mean that local policies could become more expensive to implement, especially with higher local retentions because it means sending less risk back to the master insurer and captive. If clients want to mirror master wordings, that might also be more of a challenge," he said.

Giving the buyers' perspective, Franck Baron, chairman of the Pan-Asia Risk & Insurance Management Association and group deputy director of risk management and insurance at International SOS, said protectionism has become one of the world's "biggest diseases" and warned that insurance has become politicised. He too fears that things could get worse as countries react to Covid-19.

Covid-19 likely to cause rise in IPT

Captives face tax scrutiny as they take on more risk

◇ TAX

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Experts fear that Covid-19 will see countries around the world increase insurance premium tax (IPT) to bolster revenues, but said the pandemic has reduced bureaucracy and hope this will last indefinitely. Meanwhile, a leading captive manager has explained that captives may face additional IPT as they take on more risk in the hardening global insurance market.

Joseph Finbow, IPT assurance director at tax experts TMF Group, believes that IPT will increase because of Covid-19.

"If, for example, we consider that IPT in the UK is only generating about £6.5bn a year, compared to VAT which is upwards of £130bn, it is easy to see why we have seen little activity in this area to date, but I fully anticipate that this is going to change during the coming months," said Mr Finbow.

He said there were three key reasons for this. Firstly, governments are desperately going to need more revenue and raising taxes is highly likely to be on the agenda. Secondly, IPT, which is often seen a stealth tax, is perhaps easier to increase politically than other taxes. And thirdly, there is a view that the insurance industry has not responded as well as it could to the pandemic, and therefore the introduction of pandemic pools, or compensation funds, could be funded by additional premiums or new insurance taxes.

Captives may face additional IPT as they take on more risk in the hardening global insurance market

"**It is easy to see why we have seen little** activity in this area to date, but I fully anticipate that this is going to change during the coming months"

But for the time being, IPT and its collection remain largely untouched by Covid-19, added the expert.

LENIENCY

He said there have been some broader tax measures implemented by governments, such as various extensions to filing and payment deadlines. There has also been some leniency around the imposition of penalties by authorities.

Mr Finbow noted that tax audits have notably dropped off. A number of jurisdictions have legislated to postpone the time limits for tax offices to conduct audits and review taxpayer filings, hence delaying rather than abandoning activity, he added.

Karen Jenner, IPT business development director at TMF Group, also noted a reduction in some of the bureaucracy around tax registration processes in many territories as a result of Covid-19 and lockdowns around the world.

She explained that some tax offices that usually require hard-copy documents and wet

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signatures as standard have been accepting email documents signed electronically. Meanwhile, other requirements, such as notarisations and apostilles, have been postponed or waived, and in some cases electronic processes have been developed to help facilitate more efficient and faster registrations, she added.

Ms Jenner hopes these progressive behaviours remain in place after the Covid-19 crisis.

"In fact, some of us are hopeful that some of these traditional processes that have been in place for many years may be more permanently modernised following the current situation," she said.

But Ms Jenner added that there have been territories where tax office closures have led to large delays and huge backlogs. In addition, some offices haven't relaxed their processes at all, which has delayed registrations and the subsequent ability of insurers to file taxes.

Karen Jenner

HARDENING MARKET

The impact of the hardening market on capacity, price and coverage is leading more and more companies to evaluate an alternative approach to risk financing, according to Derek Bridgeman, MD of captive manager Strategic Risk Solutions Europe.

He explained it is common for corporates to retain risk in layers where there is a certain amount of predictability, and lower severity, to remove pound-swapping with insurers. For that retained layer of risk, or frequency layer, corporates may choose to utilise deductible reimbursement arrangements, whether via a balance sheet fund or a virtual captive.

Often, there is no IPT due on the frequency layer. However, deductibles are increasing considerably in the hardening market and corporates are being pushed to participate in the severity layer, which comes with comes IPT and compliance considerations, said Mr Bridgeman.

"The frequency layer is now exposed to severity claims, which could be seen as a loss transfer layer and could lead to increased potential tax authority scrutiny," he said.

Mr Finbow noted that balance sheet fund arrangements are high on the agenda of some national tax authorities. He also pointed out that not many IPT or tax regimes clearly define what insurance, or an insurance contract, is.

It is not clear-cut when these types of arrangements should be treated as taxable or not, he said.

"To date, the UK's HMRC's interest in them has been limited, but as the values of these deductible arrangements increase and as tax offices look to collect more revenue, it is clear that this is going to be an area where we see an uptick in tax office investigations," he warned.

Joseph Finbow

Mixed progress on state-backed pandemic schemes around the world

Risk management key to building resilience

◇ PPP

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With the insurance industry unable to fully cover systemic risks such as Covid-19, attention has turned to public-private partnerships (PPPs) to offer organisations protection from future pandemics and other catastrophic risks.

Leaders at insurance buying associations around the world explained how far these discussions have progressed in their region. They stressed that while some sort of risk transfer mechanism is highly desirable, they won't be a silver-bullet solution and risk management will play a vital role in building resilience.

Ferma's president Dirk Wegener explained that within Europe there is a history of PPPs, or pools, to deal with nat cat or terrorism risks in countries such as Germany, France, the UK and Spain. Discussions over whether these pools could be extended or copied to cover other systemic risks, such as a pandemic, have developed pretty quickly and are ongoing, he said.

But in other European countries where pools don't exist there hasn't been much discussion on, or initiatives towards, any PPP pandemic solution. And in

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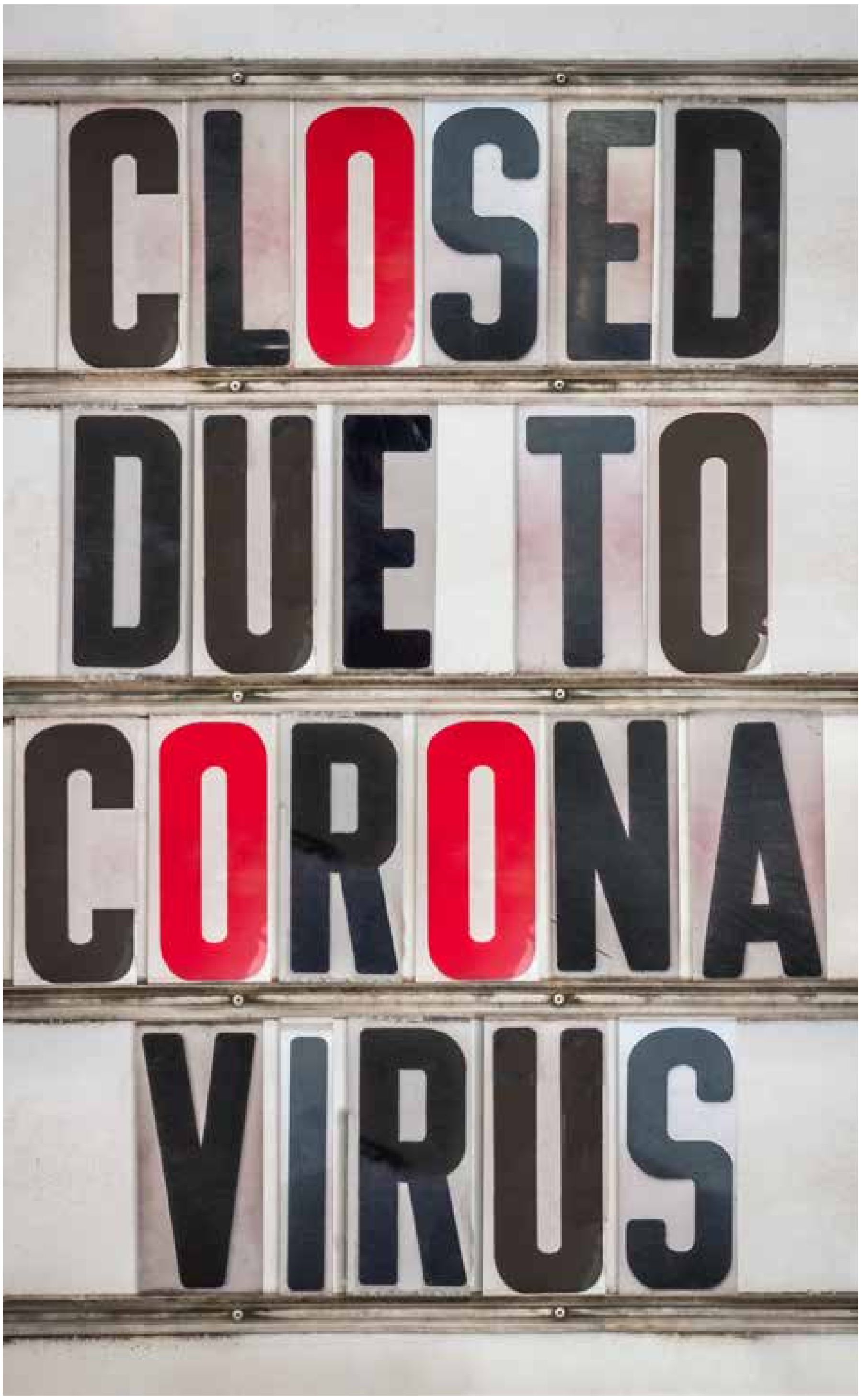

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any case, the fact that national pools don't provide cross-border protection is a problem for multinationals.

"In Europe, the big problem is these PPPs are not available in all countries, which means for systemic risks like pandemic there is a huge accumulation risk for the private sector. So, there has to be some support. But even where PPPs do exist, they do not respond to all catastrophic or systemic risks, so not everything is covered. The other major problem is they are national. If you work in an international, not to mention global, environment, you always have the problem of cross-border impacts from any systemic risk. As we have seen with Covid-19, companies suffer if supply chains are interrupted. There is a tendency for national pools to only respond for losses in the county in which they exist," said Mr Wegener.

Therefore, potentially sitting above national solutions sits a possible EU-wide scheme that is being discussed by a stakeholder group steered by the European Insurance and Occupational Pensions Authority (Eiopa). Ferma and other participants are involved in this working group to develop a resilience framework to strengthen the European economy against systemic risk. This includes a potential PPP with EU funding at the very top for pandemic, and even wider catastrophic, risk.

Dirk Wegener said Ferma is in discussions on a potential PPP with EU funding for pandemic risk

"The idea, which is at a very early stage, would extend coverage potentially to the whole EU. But it is in the early stages in the form of a position paper and it remains to be seen where it goes," said Mr Wegener, who is also global head of corporate insurance for Deutsche Bank.

He hopes to see some further concrete development on an EU scheme early next year.

Congresswoman Carolyn Maloney has proposed the Pandemic Risk Insurance Act in the US

STATESIDE

In the US, RIMS has officially supported congresswoman Carolyn Maloney's proposed Pandemic Risk Insurance Act (PRIA). It aims to create a pool along similar lines to the country's Terrorism Risk Insurance Act (TRIA).

"We strongly believe we need a public-private collaborative solution that provides a backstop similar to the TRIA for terrorism risk. We could have a new pandemic next year, which would be devastating for the economy. If we don't have this PPP, it is all going to fall on the public. Right now, that is not a tenable situation. PRIA is needed because of all the exclusions now being put in insurance policies for pandemic risk," said Patrick Sterling, treasurer and board director at RIMS.

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He said RIMS would like to see PRIA done this year but given the political distractions with the US election, this timetable may not be feasible.

"Whether PRIA gets done this year remains to be seen. A lot of work needs to be done but this is absolutely the time for a strong PPP for pandemic risk," said Mr Sterling, who is senior director of legendary people and risk at Texas Roadhouse.

APAC

Meanwhile, in Asia-Pacific, pandemic pool solutions are less developed. President of Parima Franck Baron explained there are ongoing conversations at local level in a few countries. But he said the lack of any regional political structure makes any Asia-Pacific PPP to cover catastrophic risks, such as pandemic, difficult. A lack of insurance penetration and maturity in many of the region's countries further complicates matters, Mr Baron added.

"We at Parima have started to have a few conversations with some regulators, in Singapore for instance, but there is nothing firm. The problem we have is that in addition to pandemics, APAC has the lowest insurance penetration rate. So a lot of the less developed countries and poorest communities are not yet protected by insurance. So, we do not believe there is enough maturity within the different countries in Asia-Pac to have a proper conversation and build up a public-private protection or scheme. That is unfortunate because when we ask our 2,700 members across Asia, most of them are supportive of engaging on the topic," said Mr Baron.

> **"We do not believe there** is enough maturity within the different countries in Asia-Pac to have a proper conversation and build up a public-private protection or scheme"

In Asia-Pacific, pandemic pool solutions are less developed than in other regions

While supportive of moves towards PPP for pandemic and wider cat risks, Mr Baron warned that any solution will be more geared to SMEs than large multinationals, because no scheme would have enough financial backing to fully protect the latter. "There is no solution for this magnitude of risk facing multinationals," he said.

He also said funding a PPP will be tricky right now, given that all actors – governments, business and insurers – are struggling financially because of Covid-19.

"Let's be honest about this. We are talking about three different actors in difficult positions right now. Countries and governments have all had to significantly raise their level of debt to finance and face the current situation. So, they are not in a position to be financially generous for any scheme. When it comes to the private sector, insurers and other capital providers are looking for more money to restore their financial performance. And business is struggling too. If we ask the multinationals to absorb a proportion of the risk with retentions, an additional premium or insurance tax, most are also suffering from the pandemic," said Mr Baron, group deputy director of risk management and insurance at International SOS.

"So we are in a Catch-22 situation and financing the scheme is going to be a real challenge for all parties involved," he added.

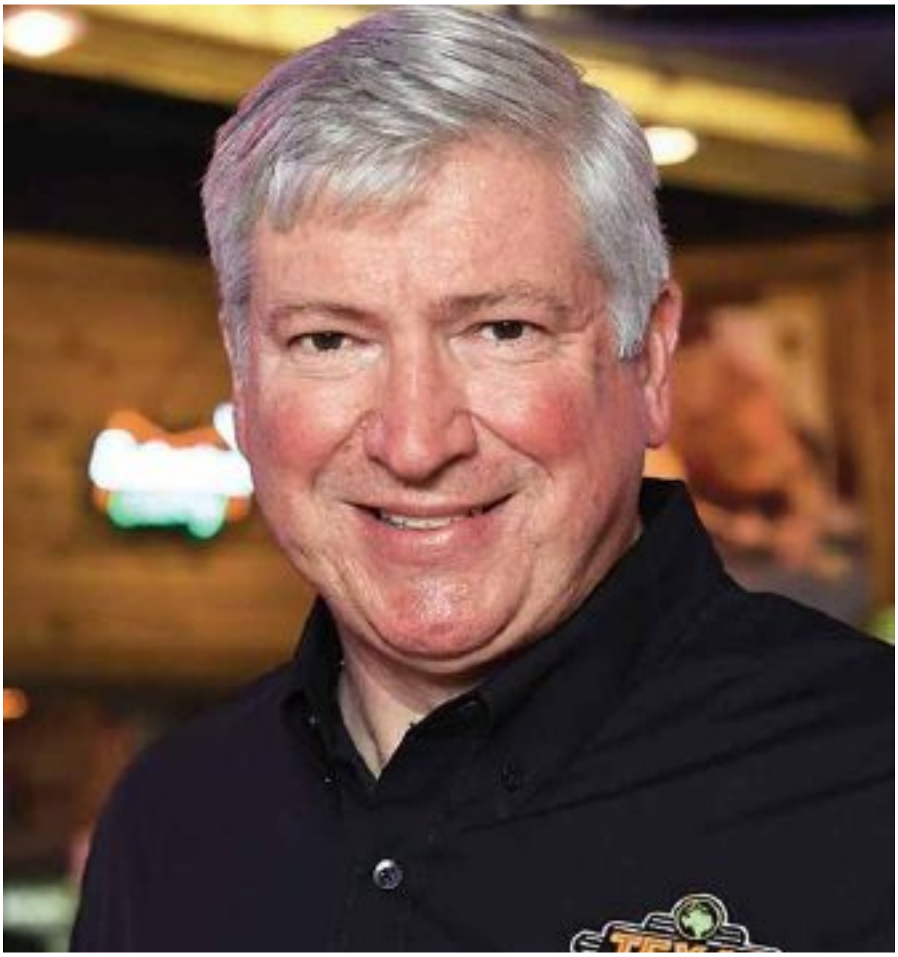
Mr Baron stressed therefore the importance of risk management in response to Covid-19 and protecting the world against future pandemics, rather than relying purely on any risk transfer solution.

"It would be great to have a pool, but what about ensuring each and every government has a proper health and sanitary system and networks in place so we can properly prevent, protect and reduce the impact of pandemics? This is even a challenge for many developed countries, so there must be a focus on risk management," he said.

MANAGING RISK

RIMS' Mr Sterling agreed with Mr Baron on both accounts.

"Money is just not growing on trees right now and where is it going to come from? A lot of P&Ls are hurting. So, part of the solution comes back to ERM, managing risk and risk mitigation strategies," he said.



Patrick Sterling said part of the solution comes back to ERM, managing risk and risk mitigation strategies

"You learn a lot on events like this. If we started from scratch from what we know now, I don't think we would be where we are. We need to capture all these lessons learnt and never make the same mistakes again. This is why risk managers are so important, particularly as we now have an elevated voice in the c-suite. Risk mitigation strategies and a good risk register are vital. You can't just rely on insurance.

"I think we must not get too caught up in wanting to insure everything. We knew about pandemic risk but it got buried. Governments weren't ready for it, business wasn't ready for it. We must learn," he added.

> " **Risk mitigation** strategies and a good risk register are vital. You can't just rely on insurance"

Ferma has previously stressed the importance of risk management in response to pandemic risk and argued that it must underpin any risk transfer pool.

And other risk managers agree that their profession must make the most of the spotlight shone on them by Covid-19.

"When we talk now to our c-suite about 'black swan' risk, we are listened to because they have seen it happen with Covid-19. Maybe the next one will be a large cyberattack. But now at least there is a place for risk managers to discuss these issues," said Mr Baron.

Sabine Frehen, insurance manager at global plant-based food company Upfield, added: "The pandemic puts you as a risk manager back at board level. It puts you back in the spotlight and risk management again at the heart of the business where it deserves to be."

Multinationals face Covid-fuelled political and civil unrest

◇ POLITICAL RISK

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Multinational companies must beware of growing civil unrest across the world, particularly in countries with populist governments, as Covid-19 ramps up already rising tensions, experts warn.

"Is social unrest risk higher structurally everywhere in the world because of Covid-19? Yes, it is. Just look at inflationary risk in emerging markets. Just look at the risk of poverty… So, this is something we are going to see more of in 2021, especially as trust in the decision making of some of the politicians has been a bit eroded," said Ludovic Subran, Alianz's chief economist.

"So, the risk is much higher in the US and higher as a whole in 2021 in a series of countries," he added.

He suggested the threat of social unrest is highest in countries with populist governments that have struggled with their Covid-19 response.

Brazil President Jair Bolsonaro's response to the pandemic has increased tensions

BRAZIL

One such country is Brazil, where Carla Carmona, global regulatory intelligence manager at Axco Insurance Information Services, also believes there are reasons to fear political violence and physical disruption.

She explained that the main source of unrest in Brazil before Covid-19 was caused by the rejection of populist President Jair Bolsonaro's political agenda by left-wing parties and labour unions. She believes the President's response to the pandemic has increased tensions.

"Mr Bolsonaro has referred to the virus as a 'little flu' and along the lines of 'there will be deaths but that is life'. So, I believe there are reasons to be apprehensive… I think this may spark protests and weaker social cohesions.

"Especially now with the Brazilian economy facing a severe recession and recent allegations of the President meddling with federal police investigations," said Ms Carmona.

She added that economic and social inequality is a major issue in Brazil and has contributed to polarisation and populism. In turn, populism encourages disruption and volatile policies that could bring people onto the streets, she warned.

> **"Mr Bolsonaro has referred to the virus as a** 'little flu' and along the lines of 'there will be deaths but that is life'. So, I believe there are reasons to be apprehensive"

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The economic challenges of Covid-19

PANDEMIC

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Covid-19 and policy responses from central bankers and ministries of finance across the globe have created new threats, risks and opportunities for businesses globally throughout 2020. While the road ahead looks rocky, there are some reasons to be optimistic as we head into 2021, according to Ludovic Subran, chief economist at Allianz.

He told delegates at Commercial Risk's global programme conference that the biggest factor for any business has been uncertainty, and warned that this will continue as long as we have the pandemic. "We have to live with that uncertainty, particularly when it comes to decisions to invest," he said.

> "We are in phase two and... we will be in this phase of uncertainty for much of 2021"

The expert stressed that the current crisis is not like the financial crash of 2008/2009. He said that despite a quieter time in the summer, there has been a form of confinement across the globe. "There are still many constraints to doing business," he added.

"We are in phase two and likely to be in this phase for the next nine months, which means we will be in this phase of uncertainty for much of 2021," said Mr Subran.

He added that Covid-19 is a service crisis, affecting countries and sectors very differently. "This makes it more of a guess than normal when it comes to forecasting 2021, but if you look at the pickup in the summer, you can have positive numbers for 2021," said the economist.

OUT OF WORK

However, there are areas of serious concern, particularly when it comes to unemployment, said Mr Subran.

"I am very concerned about the halo around the jobs market. A lot of people are not counted as unemployed because they have simply stopped looking for another job. They were seasonal workers or have a partial furlough," he said.

"We could have a relapse in the economy late in 2020. Added to that, at the beginning of 2021, we have heightened political risk. We have to reassess political risks with a Covid-19 backdrop. We have Brexit, the US elections, the risks of activities in the South China Sea and Hong Kong. We have seen that pain points have been exacerbated by Covid-19," he added.

Mr Subran added that while the risk of business failure has increased massively in the US and Asia, the threat has been postponed in Europe by government action. "It has been zombified to some extent," he said.

"Companies are surviving because they have the support of government. But the trend from 2019 to 2022 is of increasing insolvencies. Quite a few companies were in trouble before the crisis and then you add in the risks for hotels, restaurants etc, airlines etc," he added.

Ludovic Subran

BACKLASH

Mr Subran also had a warning for the insurance market. "It may be a time for regulatory backlash in our sector. To a certain extent, we need to make sure we strengthen our political and public affairs muscle. We have to be careful that some of the government supports are not considered as advance payments," he said.

However, Mr Subran concluded that lockdown has allowed some pioneering spirit. "Covid-19 has allowed us to see what was wrong before. It has accelerated our risk literacy and awareness. It has shown how interaction between the public and private sectors could work, and motivated younger people to be more active in political life. And it has also shown that companies are quite flexible in the face of a crisis, which is reassuring," he said.

"We have to reassess political risks with a Covid-19 backdrop. We have Brexit, the US elections, the risks of activities in the South China Sea and Hong Kong"

Covid-19 has dominated the headlines but Brexit risk has not gone away

Karen Gorman

Taking control of the programme

◇ MANAGEMENT

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Deciding what to control and manage from the centre, and what to leave up to local managers, is one of the biggest questions and challenges for any global programme.

Stephen Morton, head of multinational in Europe at AIG, and Karen Gorman, global services and solutions leader for Great Britain, corporate risks and broking at Willis Towers Watson, identified six crucial steps to help multinationals make this crucial decision.

These are: identify, measure, analyse, examine, implement and monitor.

Mr Morton began by looking at the questions a risk manager should be asking in order to identify and consider risk exposures around the world:

- Do they have customers or suppliers in other countries?
- Do they have assets or employees in other countries?
- What products/services do you provide?
- What type of physical presence do you have?
- What contractual counterparties do you have?

The second step involves measuring and understanding the impact of exposures and their potential harm. He pointed to systemic risks that could impact all, or many, operations around the world, and the issue of aggregation. He used the example of a cyber event such as the NotPetya cyberattack, which was a single event triggering losses under multiple local policies, leading to issues around aggregation and the intent of the global programme.

> **"Global programmes** come with a great deal of administration. But you should establish with your broker and insurer who does what"

REVIEW AND UNDERSTAND

The third step is to analyse and understand the landscape. Ms Gorman talked of a "tidying-up exercise", helping to "identify the total cost of risk, recognise trends in claims, identify cover gaps, have full transparency over the cost and covers that you have in place, and hopefully reduce local premium spend".

"A risk manager can then make decisions about what should be included in the global programme and what you should allow at local level," she said.

Some analysis should include:

- Local compulsory insurances in each country
- Anything excluded from global programmes, given the hardening of the market
- Country-specific covers
- Contract-specific covers: understanding contractual obligations in each country that may have to be insured at a local level, and assessing whether they can be included in the global programme.

When analysing the suitability of risks for inclusion in a global programme, Ms Gorman said it was important to look at whether you have a global or local exposure, and if it is similar across territories.

She also advised risk managers to look at economies of scale. Will it be worth globalising the insurance of some small operations, for example? And can the risk be absorbed locally, and if so, how much of the risk?

Ms Gorman then moved on to the next step in the decision-making process, which examines regulatory and legal considerations.

"Is the insurance compulsory? Is the local operation required to obtain insurance from a locally licensed insurer? Does local law prohibit local claims servicing/payment if the risk is covered by insurance from a carrier not locally licensed? Does a contractual counterparty or government entity need to be shown evidence that coverage has been obtained locally? Are there local nuances, such as any terms and conditions that are needed locally?" she asked.

Ms Gorman stressed the need to consider the different legal environments. Above all, the most pertinent question is whether cover is available locally, she said.

Mr Morton said there were a number of structural considerations in this examination phase. "Is a local policy required? Is freedom of service an option?" he said.

The expert said it is important to examine which risks can be covered under the master policy coverages (DIC/DIL or FINC), and whether policy limits are appropriate under both master and local policies.

Other areas to be examined include policy terms and conditions, compulsory reinsurance and self-insured retentions or deductibles. The potential use of captives to take a higher retention for the group should also be discussed.

Stephen Morton said it is important to examine which risks can be covered under the master policy coverages

There are also organisational considerations that will impact the ease of implementation, said Ms Gorman. Factors include the level of local understanding, the local political situation and, crucially, whether an organisation is centralised or decentralised, she explained. All of this can have a major effect on the success of a global programme, added Ms Gorman.

COMMUNICATION

The implementation step is all about preparation and collaboration, Ms Gorman continued. "We all know that global programmes come with a great deal of administration. But you should establish with your broker and insurer who does what," she said.

Instructing and communicating the risk transfer philosophy to local managers is perhaps the most important part of the implementation process.

Ms Gorman said it is important that local managers understand the role of the risk manager, along with the reasons for the global programme.

"Help local managers understand the risk transfer philosophy, the reasons for deductibles and self-insured retentions, and the need for consistency; and explain about the captive and how it works. Also, show them how risks are becoming more global, with Covid-19 and terrorism as examples. Explain the rules around local procurement, setting out what they can and can't buy at local level," she said.

Above all, said Ms Gorman, communicate all of this effectively and without jargon.

The final step is to monitor the programme, in order to maintain control and ensure continuous improvement.

"Use your adviser and brokers to enforce rules and provide transparency, and ensure that programmes dovetail, there are no gaps or duplication, and no unnecessary premium spend. And repeat every year – don't see all of this as a one-off exercise," said Ms Gorman.

Different approaches to local policies

Digitalisation offers growing number of solutions

◇ LOCAL

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Local policies are a crucial part of any global programme and those involved need to think carefully about issuing, servicing and updating these important building blocks. But what is a local policy trying to achieve, and what are the different approaches that can be taken? Experts from Swiss Re Corporate Solutions have provided some advice.

Ian Long, digital transformation leader at Swiss Re Corporate Solutions, explained that local polices are a critical service touchpoint for customers. "The local policy plays the role of supporting local operations, giving the certainty and the comfort that there is appropriate coverage in place to the local management," he said.

But he added that they must fit with the overall programme and align with the master policy and other local policies to deliver truly seamless, global coverage.

> "The local policy plays the role of supporting local operations, giving the certainty and the comfort that there is appropriate coverage in place to the local management"

> **Challenges lie in minimising the complexity in crossing borders**

The challenges lie in minimising the complexity in crossing borders – complexities of language, regulation or even timezone, he continued. It is important to understand the local wording contents as well as its context, said Mr Long.

DIFFERENT APPROACHES

Marc Wekkeli, senior property product underwriting expert at Swiss Re Corporate Solutions, explained that there are four main approaches to securing the right local policies.

The first is based on a good local standard. This approach uses domestic policies from the issuing office, which means that wordings

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will typically be accepted in the local market and are familiar to the local issuing office. However, Mr Wekkeli said such policies may not be consistent with other policies in the global programme, and time and effort may be required to understand and explain coverages to the customer.

The next approach is exported clauses, he said. This sees a good local standard augmented with specific clauses so customers can have particular aspects of their exposures covered. But Mr Wakkeli warned that you have to be careful about simply bolting on clauses that can lead to conflicts within the policy and create ambiguity in the programme. And he noted that, as with the good local standard, this can result in a larger reliance on DIC/DIL coverage.

Another approach is to use manuscript policies, where you take the master wording and try to implement it in each and every local country. "It is a tailor-made solution that clearly provides

"Insurance is still a people business and technology is being used to enable that"

global coverage consistency and means that global management understand exactly what is covered, and where, with full transparency," said Mr Wekkeli.

"But with it comes a big cost for translation, and each and every wording has to be adapted to the local market, so there is no economy of scale to be gained from the programme. In addition, the regulatory framework in a given country may restrict the ability to deliver the policy on time," he added.

The final approach uses standardised local policies based on a global template that each country localises. In other words, localised versions of a proprietary wording that provide full and consist coverages globally with transparent reporting. Mr Wekkeli said that, most importantly, this

Ian Long said language is one of the major challenges in dealing with policies from around the world

process is scalable and processes can therefore be aligned and digitalised to provide end-to-end efficiency.

"However, a very large upfront investment is required to deliver a robust and reliable policy framework, and policies may take time to be accepted by brokers and co-(re)insurers," he said.

Mr Wekkeli pointed out that Swiss Re Corporate Solutions has taken the standardised approach, and developed a solution called ONE Form for standard property covers.

DIGITAL TRANSFORMATION

Mr Long discussed the use of technology to help with the standardised approach to local policies. He noted, for example, that language is one of the major challenges in dealing with policies from around the world.

He pointed to the use of automated policy translation services, and stressed the importance of technology and automation when it comes to document preparation and signing, as well as API connectivity with partners, brokers and clients. "Insurance is still a people business and technology is being used to enable that," Mr Long stressed.

He said there is a lot that technology can offer global programmes and that will make life better for insureds and insurers. But it won't deliver all of the answers, he added.

"In terms of international programme business, ultimately our mission is reducing the complexity and bringing peace of mind. I don't see large commercial insurance business going down a pure digital route, but we are leveraging the technology to help wherever it can," said Mr Long.

Adding: "We are at the start of the journey where we are using the machine learning and the artificial intelligence to point us in the right direction, but certainly as we refine it and as it grows, we see the opportunity for further development."

Establish clarity pre-inception to aid claims process

◇ CLAIMS

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Ensuring that a claim is paid in full and in the correct country is perhaps the most important element of global insurance programmes for any risk manager. Urs Schmid, global head of international programme claims and global head of marine claims at Zurich Insurance, has provided useful advice on how to best achieve this.

He said it is imperative to have definitions, clarity and common understanding when it comes to a number of global programme components. Key areas include scope of cover, coverage trigger(s), basis of valuation, currency, limits and sub-limits.

Alignment of policy wordings, DIC/DIL and tax implications, LoB-specific programme setup, language/translation, jurisdiction and funding of large losses are other areas to work on, said Mr Schmid.

And he focused on some of the components that are often overlooked or missing clear definitions in global programmes, such as basis of valuation. "The alignment between the local policy and the master policy. When it comes to basis of valuation, the coordination and awareness must be there. The payout amounts may be significantly different or limited under the local contract," he said.

"Bringing funds paid under a master policy, or a financial interest cover, back to a certain country in the organisation is either not possible or can become very tricky, and also can be very expensive, because often this is linked with significant tax burdens. So there is a clear recommendation to be focused on the basis of valuation and how the wordings work together," said Mr Schmid.

He also noted that language and translation are crucial components of a global programme and claims. "We establish an international programme with a master policy wording and then local policy wordings in different territories. Depending on the country and the language, or the use of language, a given word or term may have several different meanings," he explained.

It is imperative to have definitions, clarity and common understanding when it comes to a number of global programme components

"Clarity on definition and setup is key. It needs to be established ideally in the binding procedure of a new programme"

Similarly, currency is another important area, particularly for programmes with local policies in countries with high inflation and currency fluctuations. Mr Schmid said this should not be underestimated as it can lead to massively reduced claim amounts.

Above all, clarity on all these major components is crucial and needed prior to policy inception, he stressed.

"Clarity on definition and setup is key. It needs to be established ideally in the binding procedure of a new programme. Unfortunately, it often only becomes apparent once a claim has happened – and this may be too late," he warned.

Mr Schmid concluded with a mantra for all insurance buyers of global programmes: "Anticipation instead of regret."

Insurance buyers must refresh knowledge in challenging China

Beijing, China: the country's insurance market is particularly complex for foreign companies

◇ CHINA

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The complicated nature of the Chinese insurance market makes it imperative for risk managers to refresh their knowledge each year, rather than as a one-off, and carefully plan back the steps they must take from inception to ensure cover is compliant, advised Tony McHarg, head of multinational, international at AIG.

Non-admitted insurance cover is not permitted in China, so foreign companies must take care to structure programmes and local placements in compliance with local market regulations. But Mr McHarg said evolving insurance regulations across China's 23 provinces, four municipalities, five autonomous regions and two special administrative regions can make it a tricky place to ensure regulatory compliance. It therefore requires ongoing work from insurance buyers to keep on top of the regulatory landscape that governs their programmes.

"I would say it is really important to refresh your understanding of the China market, based on the nature, scope and location of your operations every year, not just as a one-off. You should also project plan back from expiry, or inception, to coordinate the required steps needed. You need coordination between your head office, your broker and insurer, together with respective local equivalents in China," said Mr McHarg.

> **"You need coordination** between your head office, your broker and insurer, together with respective local equivalents in China"

LOCAL WORDINGS

Companies must consider issues around local policy wordings, reinsurance and policy currency/cross-border money movement and AML rules, he added, before giving specific advice on each area.

The expert said local Chinese policy wordings, including rating methodology and rate changes, must be filed with the regulator before use. But he warned that

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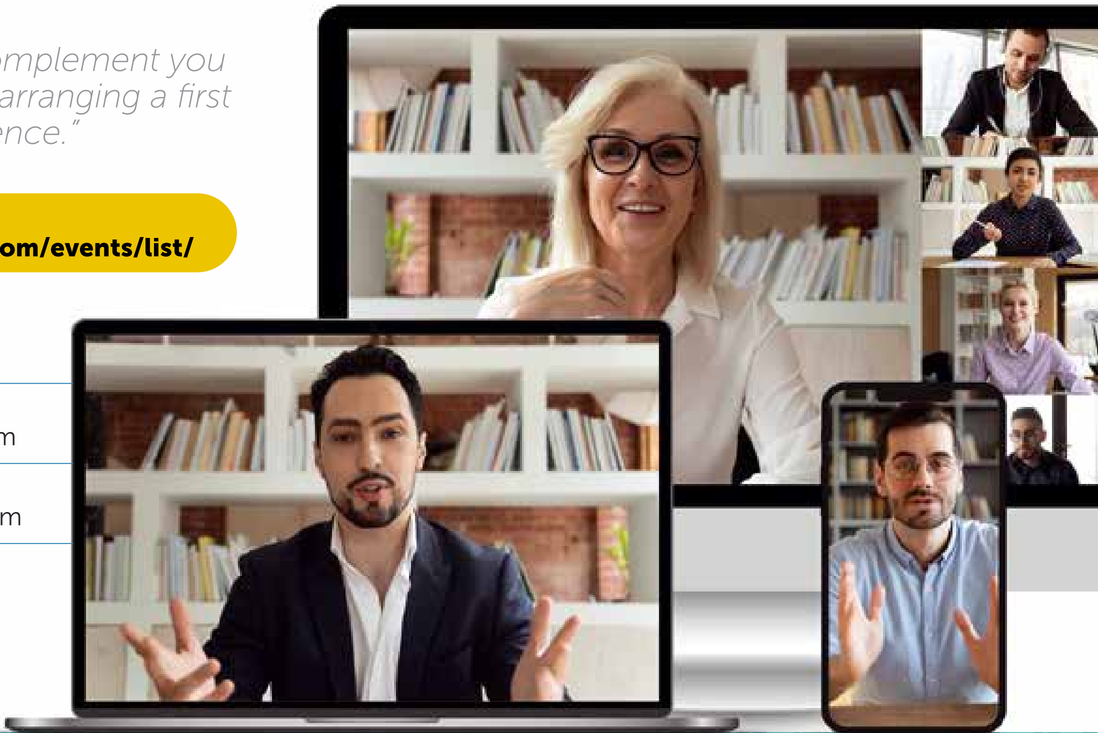

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Tony McHarg

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product development and filing governance imposed on insurance companies makes this a "very extensive and time-consuming process", which clients need to take into account. "In many cases, filing can take between six and 12 months," said Mr McHarg.

Reinsurance rules in the country state that a maximum 80% of risk premium can be exported to any single reinsurer, and all foreign reinsurers and brokers must be registered with the China Banking and Insurance Regulatory Commission (CBIRC). So, insurance buyers must make sure that whoever they are dealing with is appropriately registered, said Mr McHarg.

Despite some exceptions, mostly for covers taken out in China for overseas property risks, risk managers must also be aware that when it comes to policy currency and cross-border money movement, local currency and collection is mandatory in the country, he continued.

And another complication is AML rules that cause many insurance clients "frustrating delays", added Mr McHarg.

> **"There are a number of** state-owned enterprises that already utilise captives. They are domiciled in various locations across China"

"AML compliance is required for pre-issuance for polices with premium above CNY200,000, which roughly equates to just under $30,000. I point to this requirement as we often see delays in policy issuance due to the AML documentation requirements," he explained.

CHANGING REGS

The difficulty of navigating the Chinese insurance market is further complicated by rapidly changing regulations and fact the country has so many different provinces and regions.

Foreign and private domestic insurers are restricted to only providing policies within the province in which they are registered, unless the exposure qualifies under the cross-border risk criteria "These challenges are present for all involved," said Mr McHarg.

But there are solutions. AIG China, for example, partners with the People's Insurance Company of China to ensure clients receive compliant local coverage and related services across China, wherever they may be located.

Insurance companies are also facing strengthened market supervision in China, as well as a shift towards differentiated, more local, oversight across the country to ensure regulatory changes are enforced.

"In the case of AIG China, which is headquartered in Shanghai, where in the past we were regulated by the central CBIRC, regulatory oversight responsibility has now shifted to the Shanghai CBIRC, which is more closely located and engaging quite frequently with us to ensure the changing regulations are properly understood and complied with. All of that translates to a heightened sensitivity and awareness from insurers to ensure compliance with regulations as they evolve. This can directly affect local policy coverage, currency and/or implementation challenges for clients," said Mr McHarg.

He concluded by adding that captives are expanding in China, in reaction to some challenging insurance market conditions and a desire to boost risk management in the country.

"There are a number of state-owned enterprises that already utilise captives. They are domiciled in various locations across China, from Beijing to Hong Kong. We expect that trend to continue, on the back of challenging market conditions.

"But also sponsored by the government, which sees the development of captive insurance as a further sophistication in the market and one vehicle to encourage the enhancement of risk management capabilities at state-owned Chinese enterprises and large private-owned enterprises," explained Mr McHarg.

Changing regulations in scrutinised market

◇ BRAZIL

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Companies operating in Brazil must contend with a highly scrutinised insurance market and active regulator, with new rules coming thick and fast.

Carla Carmona, global regulatory intelligence manager at Axco Insurance Information Services, explained that non-admitted insurance is prohibited in Brazil except in very limited circumstances.

Non-admitted insurance can be used in some cases if cover is unavailable locally. It is also possible to approach the Brazilian insurance regulator SUSEP to approve non-admitted cover in special circumstances. Additionally, non-admitted is allowed for certain insurances subject to international treaties approved by the Brazilian congress.

Non-admitted is also permitted for hull, machinery and liability insurance for Brazilian vessels operated by Brazilian transport companies and listed on the Brazilian Special Register. But even here, this is only when the local market either does not offer capacity, or does not offer prices compatible with the international market.

Multinational risks can be insured through locally admitted policies, a single global policy or a global programme that combines both approaches, with a master policy integrated via reinsurance arrangements and local polices issued to local standards, explained Ms Carmona. However, the general rule is that risks located in Brazil should be insured with locally admitted companies. Non-admitted placement is not an option for compulsory insurances or for organisations domiciled in Brazil to cover their loss exposures within the country, apart from the specified exceptions stated in law.

But Ms Carmona added that given the number of (re)insurers operating in Brazil, it is very rare that companies need to turn to non-admitted coverage options.

COMPLIANCE

However, the local regulator SUSEP keeps a close eye on insurers and their clients to make sure they are complying with regulatory and tax issues, said Mrs Carmona.

She explained that SUSEP can fine policyholders in receipt of undeclared claims payments from unauthorised foreign insurers. In addition, insurers must be authorised in accordance with approved plans, tariffs and regulations. Intermediaries also need to be authorised by SUSEP, but do not have to warn buyers that their insurer is not subject to local supervision.

"The regulator is active in Brazil. We know SUSEP exercises strict control over insurance stakeholders. It is a market that is highly scrutinised by the regulator, so compliant practice is absolutely crucial. To put it simply, it is crucial to understand the market and know how it behaves. You must be aware of the more or less rigid framework around policy issuance and requirements," said Ms Carmona.

SUSEP can fine insurers BRL3m, which equates to

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Carla Carmona said the general rule is that risks located in Brazil should be insured with locally admitted companies

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€450,000, for flouting the rules. The regulator's strict market control, along with potential penalties for non-compliance, mean insurers take care to ensure coverage is placed in accordance with local regulations, said Ms Carmona.

While insurance buyers and their carriers must be alert to strict enforcement of current regulations in Brazil, they must also contend with new rules that are being enacted in "very short timeframes", she continued.

One example is Brazil's Data Protection Law, which came into force sooner than expected on 19 September. It was supposed to be delayed until next year. Similar to the EU's GDPR, the law carries a potential BRL50m (€7.45m) fine for non-compliance, in addition to a partial or total suspension of data processing.

NEW REGS

While this affects insurers and the companies they serve indirectly, there have also been specific regulations put forward, or introduced this year, for the insurance industry, according to Ms Carmona.

"**Under new rules that** came into effect on 1 June, insurance buyers will have to approach five rather than ten local insurance companies"

A draft resolution was submitted for public consultation in February, proposing that intermediaries are certified under a process to be devised by SUSEP, with insurers prohibited from using an uncertified broker.

Another development came in March, when it was announced that insurance policies may be issued in a foreign currency with the agreement of both insurer and insured, unless specifically prohibited by regulations. This is designed to offer protection from exchange rate fluctuations, explained Ms Carmona.

Changes to deregulate the insurance broker profession were put forward but Ms Carmona explained that this was revoked in April and therefore intermediaries are still regulated by SUSEP. But uncertainty remains and the Brazilian government intends to revisit those measures, she said.

Rules on non-admitted insurance in Brazil have been slightly relaxed.

"Under new rules that came into effect on 1 June, insurance buyers will have to approach five rather than ten local insurance companies, or all those operating in the line of business concerned if fewer than five.

"But they will need to continue to keep copies of the corresponding declinatures from insurers, including the reasons for declinature, to comply with the process designed by the regulator for allowing non-admitted placements in the cases of cover not being available or in the event of lack of interest in providing it," explained Ms Carmona.

Navigating a changing market

◇ Q&A

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Following our 'Global Programmes Europe: Gaining Maximum Benefit' conference, we caught up with Nigel Bamber, head of customer, UK at Swiss Re Corporate Solutions, to ask him about some of the pressing issues facing multinational insurance buyers.

Q: WHAT IS THE STATE OF THE GLOBAL INSURANCE MARKET FOR MULTINATIONAL COMPANIES? HOW DO YOU SEE THINGS GOING AS WE HEAD INTO 2021?

Nigel Bamber (NB): The global insurance market has clearly changed since last year as the market has continued to harden during 2020 in the face of many years of unprofitability/poor return on capital. Clients are facing tougher pricing and the tightening up of terms and conditions as insurers exit certain lines of business because they can't foresee a sustainable return on their capital in the short to medium term. The consensus view is that this will continue into 2021.

So how should clients react when insurance moves from being in plentiful supply and a commodity play to becoming, in some cases, scarce capacity? Early dialogue with insurers is recommended so areas of concern can be openly discussed and dealt with by, for example, stripping out unnecessary covers, increasing retentions or providing better information to allow the insurer to make a more informed decision. But it isn't all bad news as there are ways in which clients can put in place risk financing protection to protect themselves by buying cross-class stop-loss covers. The old adage that an underwriter will assume the worst when faced with inadequate information is exacerbated in a hard market. An increased focus on risk management should also make a positive difference.

Clients look to see which insurers are able to step up in these difficult times and we see "a flight to quality" also being one of the results. International programmes will remain just as important in these challenging times as they provide greater global coverage certainty for multinational companies.

Q: ARE CAPTIVES PLAYING, OR LIKELY TO PLAY, A BIGGER ROLE IN GLOBAL PROGRAMMES AS BUYERS TACKLE THE HARD MARKET? ARE THERE ANY NEW RISKS OR AREAS THAT BUYERS ARE USING CAPTIVES FOR?

NB: Yes, they will be, either managing an increased retention or providing additional capacity somewhere in the programme. Captives are a great and flexible tool for corporates to cope with capacity crunches or price hikes, and therefore can counter potential budget uncertainty. In terms of new risks, yes, absolutely. Usually, the commercial insurance market reacts slower to the emerging risk arena than a corporate would wish for, and captives can often jump into leading the path to insurability of those risks.

Q: WHAT RECENT DEVELOPMENTS OR INVESTMENTS HAS SWISS RE CORPORATE SOLUTIONS MADE TO FURTHER SUPPORT CLIENTS WANTING MULTINATIONAL PROGRAMMES? HOW ARE YOU PLANNING TO BOOST YOUR MULTINATIONAL SERVICE FOR CLIENTS AND EXTEND YOUR REACH?

NB: As a relative newcomer to the world of international programme business, one of Swiss Re Corporate Solution's biggest advantages was our ability to build a platform from scratch. We consulted customers at every step of the journey to truly understand where the pain points were. This customer feedback was then used to build a system where we use the latest technology to significantly improve the experience for our customers and brokers. A proof point is that we have now licensed our platform for use by some brokers and insurers to manage their customers' international programmes exposures.

We have also developed our International Program Administration system, and a so-called Knowledge Tool where local regulations and particularities, such as local taxes, nat cat pools, retention requirements and the like, can be looked up instantly, thus providing a technological backbone to drive efficiencies in the handling of such programmes.

Local policy issuance is a common cause of concern for clients in terms of poor standard of coverage and delays in issuance. We continue to develop our offering and, in terms of contract certainty, developed a new property framework called ONE Form, which offers 'master-wide' coverage by mirroring the content of the master policy into the local policies while, at the same time, considering specific local coverage requirements in a standardised and consistent form. As the issuance of such policies is fully automated into our IT platform, this enables local policies to be issued at the touch of a button very quickly and without fuss. So, we are confident that we are solving an important issue for customers


Nigel Bamber

Swiss Re Corporate Solutions has built a network of 150 countries where local policies can be issued. With that, we can cover the vast majority of customers' needs. In rare cases where a given country is not covered, we can leverage the relationships put in place by our reinsurance colleagues to ensure we can provide a solution to the customer.

> **"We consulted customers** at every step of the journey to truly understand where the pain points were"

Q: MARSH'S PRAVEEN SHARMA CALLED FOR INSURERS TO DELIVER A STANDARD FINANCIAL INTEREST CLAUSE (FINC) WORDING AT OUR RECENT GLOBAL PROGRAMMES CONFERENCE, TO MAKE THINGS EASIER FOR BUYERS. DO YOU SUPPORT THIS IDEA AND IS IT FEASIBLE?

NB: We certainly support the proposition that the concept of financial interest should be better understood and are pleased to advise that Swiss Re Corporate Solutions is both an early adopter and an ongoing believer.

However, the industry still blows hot and cold both on the use and usefulness of financial interest clauses. This is driven by stakeholders' various understandings of how the concept operates, but also insurers' relative need for financial interest cover. A global insurer, which has invested heavily in its own international network, may naturally have a different perspective than a smaller player that sees financial interest cover as its entry ticket to leading insurance programmes.

A standard wording may be a step too far, but it would be good, firstly, if the industry and its legal advisers could come to a consensus on what financial interest is – a pervasive insurable interest at holding company level, distinct from subsidiaries' own individual interests – and what it isn't – a workaround to allow you to leave at the back door what you couldn't deliver at the front. Secondly, insurers and brokers should be upfront with clients about the limitations of financial interest cover, including its downsides and the paramount importance of working out in advance whether and how the costs of financial interest cover, and proceeds of financial interest claims, are to be distributed.

Global programmes remain an attractive solution in tough environment

◇ Q&A

news@commercialriskonline.com

The use of global programmes could actually increase as a result of the Covid-19 pandemic, with captives set to play a bigger role in the hard market, according to experts from Zurich Insurance.

Reto Heini

Q: WILL THE PANDEMIC PUT AN END TO THE INCLUSION OF EMPLOYEE BENEFITS IN GLOBAL PROGRAMMES OR ACCELERATE IT?

Reto Heini, regional distribution manager, employee benefits solutions: The pandemic will likely lead to an increase in the use of global programmes, including captives, for employee benefits (EB). We have already seen some practical examples of changes in corporate behaviour to support this theory.

To begin with, we have had actual examples of captives moving decisively to underwrite any gaps in cover for their existing programmes that have been identified at country level. This enabled the local policyholders to give assurances to their employees that they would not be subject to any Covid-19-related exclusions. This type of proactive behaviour from the captive has already resulted in us receiving enquiries from other countries within the same organisation looking to use the programme for their local benefits, as they see the advantages of having a more flexible, tailored solution that can be consistently applied across multiple territories, rather than taking a chance with a pure local standalone policy over which they have little control.

"The pandemic will likely lead to an increase in the use of global programmes, including captives, for employee benefits"

Another interesting dynamic was that as soon as the potential impacts of Covid-19 began to materialise, we started to receive queries from risk managers asking us to support them with identification and treatment of potential cover gaps for EB programmes. In the past, this would have been a request that would have come in via a local policyholder, or maybe a global human resources representative, but it was quite noticeable that the responsibility in many firms had passed to the risk manager.

It confirms the trend we have seen for some years now, of risk managers becoming more embedded in the management of EB risks. We believe this will raise the profile of the risk manager within their own organisation and make it easier for them to communicate the value of the global programmes, which again we expect to lead to an increase in requests from non-participants.

In the longer term, it is still difficult to predict exactly what the full impact of Covid-19 will be for the wider EB industry. So far, we have seen some relatively modest increases in life and disability claims, but this does not tell the full story. The more significant 'death by all causes' experience will only fully materialise in the future, as the additional claims for people with chronic illnesses who faced interruptions or postponements to their medical treatments becomes known.

Of arguably more concern is the impact on long-term disability plans, where experience of any event takes longer to evolve and, again, we have yet to see the impact of additional mental health and musculoskeletal claims from employees set up at home. This is not to mention claims from employees that have already lost jobs, or who may be at risk when some of the country furlough schemes come to an end.

All these factors combine to create potential uncertainty in the industry and that will in turn likely lead to a combination of pricing, policy coverage and capacity adjustments. Once these changes begin to take effect, the expectation is that organisations will look to use their global programmes as a way of housing and spreading risk more efficiently to help regulate the fluctuations as much as possible.

Q: WILL THE EXPECTED GREATER USE OF CAPTIVES ACROSS EUROPE AND WORLDWIDE IN THE HARD MARKET LEAD TO A GREATER USE OF GLOBAL PROGRAMMES?

Paul Wöhrmann, head of captive services EMEA, APAC and LATAM, commercial insurance: Firstly, we have seen a change in the buying behaviour of current captive owners, which certainly consider including more lines of business that were previously placed in the traditional market.

Secondly, we see a change in the buying behaviour of customers who currently do not own a captive and are exploring how they could achieve more flexibility in the current market environment.

Thirdly, we see that captive owners in Europe and Asia-Pacific are becoming more and more interested in including EB-life programmes in their existing captives. Furthermore, the market also discusses whether new risks such as cyber should be ceded to captives.

Fourthly, the opportunity to increase the efficiency of international programmes thanks to digitalisation will certainly lead to a greater use of insurance programmes.

These developments will result in more international programmes being ceded to a captive. Current captive owners will seek more captive health checks to check whether their

Paul Wöhrmann

"The opportunity to increase the efficiency of international programmes thanks to digitalisation will certainly lead to a greater use of insurance programmes"

captive retention needs to be adjusted or whether other traditional programmes should be included in the captive proposition.

Captive owners will benefit from increased efficiency of international programmes, since more and transparent information will be available from a country to a programme level, up to the reinsurance captive level. The increased quality of information flow will enable risk managers to strengthen their risk management efforts and initiate more efficient negotiations with the reinsurance markets.

All in all, in the current market environment, corporates will increasingly seek 'decision options' because they might be concerned about the terms and conditions of their insurers in their countries. Captives or virtual captives will be helpful tools to provide 'choices' and tailor-made solutions.

Q: DOES THE DRAMATIC HARDENING IN D&O COVER AND REDUCING CAPACITY IN MANY AREAS MEAN THAT THIS RISK IS MORE DIFFICULT TO INCLUDE WITHIN A GLOBAL PROGRAMME?

Luca Ravazzolo, global head of financial lines, commercial insurance: No, we are actually investing to enhance our global programme proposition in financial lines including directors and officers (D&O), and we don't expect a reduction in Zurich's D&O global programmes. Rather, we plan to increase our market share.

The fact that premiums have increased sharply and capacity has decreased, particularly for entity cover (Side C) for securities claims, has mainly the effect of reducing the overall programme master limit and potentially also of the primary master policy, plus a restructuring in the programme tower cover mix.

But, generally for D&O, the limits of the local policies are significantly lower than the master programme limit and contained within the master primary policy limit. Therefore, besides a potential small reduction of local policy limits (relying more on master DIC/DIL) and an increase in premium, there is no adverse impact on the overall D&O global programme structure.

This includes the cover scope, which remains consistent with the that provided by the D&O primary master policy, despite a potential cover restructuring and restriction in the excess layers of the D&O master programme.