

# Global insurance programmes



Today's fastest growing businesses are looking for increased cost efficiency, consistency and transparency in their global insurance programmes. They are moving away from traditional thinking to the next generation approach. **By Sue Copeman**

**S**o-called 'global programmes' can be a bit of a mixed bag. There may be centralised insurance buying using global or, in some areas, regional brokers, as well as some regional offices simply dealing with their own local brokers and controlling their own placements. The result is that the risk manager may not know exactly what insurance is being bought where.

It is not surprising that sophisticated companies that are already benefiting from globalisation in their trading strategies and have appropriately centralised functions are now beginning to ask whether their global insurance programme really comes up to scratch. Surely, they argue, it should be possible to match the trading benefits with the same cost-effectiveness and consistency from insurance?

## Drivers for change

Fiona MacLeod, Head of Global Support Team and Managed Accounts, Jardine Lloyd Thompson, sums up some of the drivers for change: "A risk manager with global responsibility needs to know what's going on in all territories. And companies looking at their cost base and considering outsourcing want to make sure that they have the most efficient and cost-effective structure and approach. At the same time, they need to ensure regulatory and fiscal compliance."

Availability is another driver. Ron Hayes, Managing Director of Jardine Lloyd Thompson's Global Risk Solutions, points out that insurers are starting to change their focus regarding the type of service they will offer. "Linked with that are developments in technology which now work much better than ever before," he says.

Neil Campbell, Head of Life Science &

Chemicals, Jardine Lloyd Thompson, agrees on the new opportunities presented by advanced technology. "Information can be moved around and assembled very easily with web-based systems that 'talk to you' and insurer systems that can manipulate data very easily."

He sees another key driver as the push towards compliance and an admitted global insurance regime. "Companies are buying into insurer networks which can provide a global service for the key covers. They also want to avoid duplication of administration which can entail additional cost and slow things down."

Risk managers want two competing things, believes Russell Meagher of AIG UK Limited, Major Accounts Practice: "One is control and how best to achieve a degree of certainty around the local placements. The second is cost effectiveness. Obviously,

having a high degree of control can increase cost particularly where you have both a global insurance provider and a global broker represented in all territories. Clients need to ensure the roles and responsibilities of broker and insurer are clearly understood and there is no duplication."

## Meeting the challenges

If you are thinking about going 'truly global' with your insurance programme, there are clearly opportunities – but there are challenges too. "Trying to manage a global programme involves lots of different cultures and local customs," MacLeod points out. "You've got to get people to understand the single corporate message. If you're sitting somewhere like Milton Keynes trying to manage risk in hundreds of territories around the world, you're going to need specialist help to break down some of the global barriers."

Another challenge is ensuring global compliance – a big consideration for any risk manager. "You should be able to rely on insurers who are regulated in the different territories to provide input for compliant policy documentation. And it's the responsibility of the broker to make sure that the programme is structured efficiently and everything 'fits'," says MacLeod.

According to Mandy McKenzie, Head of Market Customers and Broker Relationships, Zurich Global Corporate UK, companies rate a global insurer's ability to ensure compliance very highly. "Following a loss in a territory, if the regulator decides the insurance is invalid, the claim won't get paid and the entire programme starts to unravel." With regulations constantly changing around the world, this means continuous monitoring.

A key saving could be made by reducing the use of local brokers, says >>>>

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MacLeod. “Individually, the cost of local broker appointments may be small – perhaps only \$10,000 to \$15,000 each. But if you’re employing a local broker in perhaps 100 territories, the cost adds up – and what each is providing for that amount of money is likely to be minimal.”

Although she concedes that regional offices may be reluctant to relinquish what they see as domestic support, she says that people are very quick to transfer their allegiance if a global programme delivers value. “It can give them more comprehensive information and faster response to queries. An experienced global service provider understands the issues in the different territories, speaks the language and can get an answer direct from the global insurer.”

Also, as Campbell points out, local brokers may not understand the fuller picture around what their client is trying to achieve, which can affect their performance in terms of meeting the client’s business objectives and ensuring consistency and corporate best practice.

He adds: “Insurance companies, by enabling all lines of insurance to be purchased on a global basis, have effectively reduced the requirement for transactional insurance brokers on the ground.”

#### Moving to the next generation

A centrally bought global programme, predominantly insured by one carrier and administered by one broker, has clear cost and control benefits. How feasible is that for your business?

If you already have a highly-centralised approach to your insurance programme, moving that step further to the next generation should not be an issue. A company that is less sophisticated may need a transitional phase – for example, focusing on buying centrally but not removing all local brokers straight away.

Indeed, you might not want to dispense with local brokers completely but focus on using them where they can add value rather than just acting as administrators, duplicating the global insurer’s role. “For example, you might want to employ a local broker on a project basis where you’re buying a company

in a new territory or radically changing how you buy cover in a region when local management need some additional support on the ground,” says Hayes.

In order to add value, it is important to structure a global service offering and programme that connect the needs of the corporate entity and the requirements of local operations. For risk managers, having control over local and global programmes is critical. “You can’t know whether you’re adopting the most efficient approach from a global perspective unless you have that control,” stresses MacLeod.

A risk manager who does not have control of local insurance placement could face escalating costs, both in terms of insurance premium and local broker remuneration. The risks include duplication and gaps in cover, non-compliance and failure to meet corporate best-practice standards. However, one of the biggest disadvantages is failing to exploit the economies of scale – getting broader cover at a lower cost by placing your business with a single global carrier.

This does not mean that you get a

‘standard’ programme. “It’s not a ‘one-size-fits-all’ approach,” explains McKenzie. “Clients have options, even in quite difficult territories.”

Helping to manage your next-generation global programme is going to require some very special expertise from your partnering insurers and brokers. “Ideally, your central broker team will be multilingual, highly knowledgeable about different countries’ regimes and legislation and very familiar with your organisation so that it can provide consistent and accurate advice right across the company,” says Campbell.

What makes or breaks global service delivery, maintains MacLeod, is the strength of the provider in terms of managing the network. “Clear service guidelines on expectations must be established at the outset and monitored throughout to ensure seamless service and add value.”

It is important for the broker to understand both what individual global insurers can and cannot offer, and also the processes needed to make a global programme work effectively. “The service provider should then assign responsibility within its own organisation,”

Hayes stresses, “and be prepared to act as a ‘policeman’ to make sure the insurer delivers on its promises.”

#### Support from insurers

With cutting duplication being one of the key contributors to reducing costs, Hayes believes that the brokers acting as service providers should work as partners with the global insurer rather than as competitors. “You don’t want a situation where a very large broker takes on some of the services that the insurer is providing and you end up with two sets of people doing the same piece of work.”

Global insurers have much to contribute, not just in terms of underwriting, ensuring compliance and issuing documentation, but also in providing effective IT systems. “Insurers have bolstered their global client management teams and can provide really good information to risk managers on what’s happening in all the territories, as well as ensuring compliance,” adds MacLeod.

“Companies with global programmes that have their own captives want information pretty much at the push of a

button on the state of play of policies and invoices issued and premiums collected in different territories. They want to ensure that money flows through the insurer/broker/captive network with no bottlenecks,” confirms McKenzie.

Among the top international insurers, there is a high degree of competition to write global programmes. Meagher believes that they need to ensure the client is getting value for money. “The issue at the heart of this is the cost of supporting an effective network balanced against delivering cost-effective solutions for the customer. Insurers need to have a high degree of control over the quality of what their local offices are producing.”

MacLeod concludes that “companies generally have been downsizing their risk management departments, seeing risk as a central cost. A well-managed, truly global programme is one way for risk managers to deliver value back to their organisation.” **RS**

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## A CLIENT’S PERSPECTIVE: SOLVING PROBLEMS

The Brink’s Company is a leading global security services company with 58,000 employees worldwide and operations in more than 50 countries.

Art Wheatley, Vice-President, Risk Management and Insurance, says that he focuses on quality of service. “The usual advantages of a global programme – leverage for coverage and pricing, and the assurance of standardisation of coverage and reporting requirements – should come automatically if the programme is arranged properly. However, although we don’t want ‘fancy bells and whistles’, we do want solutions to our problems. This means using a service provider that has taken the time to educate itself to understand our business. That’s a win-win for everyone!”

He cautions anyone considering appointing a global service provider against thinking that bigger is best. “You really need to understand the network, the people involved, the service that you are going to need in relation to what you are actually being offered and the price of that service. It’s not essential that the broker has

wholly owned subsidiaries in all territories. It’s more important that the services provided are going to fulfil your needs – and keep your local people happy.”

Inevitably, there will be a few ‘mavericks’ who are unhappy at giving up local relationships. “You may have to ask your service provider to prove quite regularly to them that they are getting better coverage, better service and a better price,” says Wheatley. He adds that it is also important to monitor local brokers to ensure they do not become lazy or complacent.

He believes that it is important to have flexibility in respect of local brokers. “If you would prefer to use a local broker that is not part of your global service provider’s network, there should not be a problem provided that the local broker is prepared to follow the established and agreed standards and reporting procedures. This way you get the best of both worlds.”

The Brink’s Company has gone through a metamorphosis in the last three years with the divestment of its airfreight subsidiary, BAX Global, in January 2006.



**“It’s important to have flexibility in respect of local brokers.”** Art Wheatley

“We looked to our service provider here to ensure that the BAX part of the global programme was divested in the appropriate way with no problems,” explains Wheatley.

Finally, he stresses the need for a service provider that is “always looking to find solutions rather than just looking to do the administration work on the global programme”.