FRUTAROM
FOUNDED 1933

Risk Management Strategy

Developing an Efficient Multinational Insurance Program

Alon Granot

14 April, 2011

Developing a Multinational Insurance Program

Under the best of circumstances, setting up a large insurance program presents a challenge to the client, broker and insurer alike. But when the development of a program is further complicated by foreign business customs, financial regulation and languages, the problems involved can appear overwhelming. This presentation will outline the basic approaches to developing an effective and efficient multinational insurance program.

Exposures & Risks

A multinational company faces many of the same exposures overseas as in its home country. However, differences in legal requirements, political environments and even geography or climate require a review of operations on a country-by-country basis. Obvious risks include damage to property, injury to employees and automobile hazards. Although claims consciousness is generally much lower outside the USA, there is a trend towards increased litigation overseas in areas such as Products, Pollution and Directors & Officers Liability. Less obvious risks include new or increased exposures such as Trade Credit, Terrorism, Political Risk or Kidnap & Ransom.

Protection of Assets/Income

- Real Estate Property
- Time Element, including Business Interruption
- Equipment & Machinery
- Property in Transit
- Sabotage & Terrorism
- Crime
- Computer/Toll Fraud
- Automobile Physical Damage
- Trade Credit
- Product Rejection
- Weather

Liabilities to Others

- General Liability, including Products Liability
- Recall Liability
- Workers' Compensation/Employer's Liability
- Emergency Assistance Services
- Automobile Liability
- Directors & Officers Liability
- Accident & Health
- Excess Liability
- Professional Errors & Omissions Liability
- Environmental Impairment Liability
- Patent Infringement/Enforcement

Factors Influencing Program Design

- **Extent of overseas operations** – Companies whose exposures consist only of export sales, project consulting, warehousing or occasional executive trip/travel will have different program requirements than companies with more complex international operations, such as sales, distribution or manufacturing facilities.

- **Insurance requirements of each country involved** – Regulatory issues fall into two broad categories: Compulsory insurances and position on Non-Admitted Insurance.

- **Compulsory insurances** are those lines of coverage required by law to be insured. Each country will have its own set of compulsory insurances.

- **Corporate operating structure and philosophy** – Global programs work best when the program structure mirrors the underlying operating structure of the company, particularly with respect to the degree of centralized control/decision rights and geographic responsibility.

- **Risk Management objectives** – Key Risk Management issues such as the level of global authority, risk retention philosophy, administrative capacity and other specific objectives will differ significantly between companies.

- **Communication/ Administration requirements** - The level of administration and communication necessary will likely, but not always, vary directly with the complexity of international operations. Understanding internal communication flow between Risk Management and other departments, such as Legal, Facilities or Treasury and any specific administrative requirements of such stakeholders will help ensure that the program is managed effectively.

- **Compliance risk tolerance** - Corporate governance-related directives have increased the awareness of compliance issues at senior management levels. From an insurance perspective, compliance relates to adherence to insurance regulations and payment of premium and other related taxes.

Program Structure

The obvious starting point is reviewing the existing insurance program. For many lines of insurance, such as Ocean Cargo, Umbrella or Crime, existing policies either already apply worldwide or can easily be extended to cover international operations. Additional attention needs to be paid to the core insurance policies, such as General Liability, Workers' Compensation / Employer's Liability, Automobile or Property lines where separate policies may be necessary.

Controlled Master Program

Controlled Master Program is directed through a Master policy issued at the Parent company level that outlines the terms and conditions that apply to all international operations. Local policies, or "underliers", are issued where appropriate by the overseas office of the insurer, at the request of the stateside underwriter. These underlying policies serve to satisfy indigenous legal requirements, provide access to special government funds or plans, facilitate foreign premium/tax/loss payments, and provide a vehicle for overall account servicing.

Benefits of the CMP

- The Controlled Master Program offers several tangible benefits:

- **Cost** - Purchase of virtually all local coverage from a single source allows the insured to maximize their buying power. Underliers with local billing increase the tax deductibility of insurance premiums.

- **Simplification** - The Master policy's terms and conditions are consistent worldwide. The stateside risk manager can refer to the Master policy to determine the extent of coverage in any one country.

- **Flexibility** - Logistical questions such as the extent of local coverage, where and how premium and losses are to be paid, can be arranged to suit the company. Intra-corporate allocations for insurance costs can be made easily through local premium billings.

- **Control** - Control of the Master Program rests with the stateside risk manager, broker and underwriter. The stateside risk manager can make as many insurance-buying decisions as desired. Because local policies are issued, the overseas manager has tangible evidence of coverage in the local language and keeps an active interest in the local insurance program.

- **Compliance** – Issuance of local policies increases the level of compliance with insurance and tax regulations.

- **Administration** - Issuance of local policies through the Global Network provides a basis for local account servicing, including issuance of local certificates of insurance and managing premium/tax allocations.

- **Claims Service** - The major insurers have global claims offices to provide consistent service worldwide. The risk manager can develop accurate loss information through an interconnected claims network tied to the Master policy. The local broker helps facilitate claims coordination within the program.

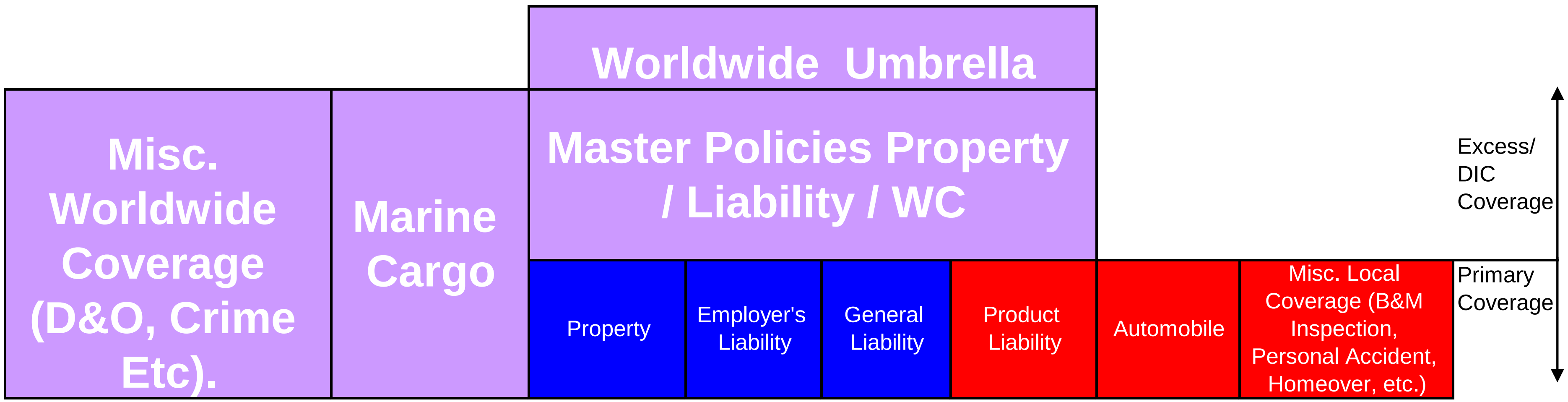
- **Account Underwriting** - All local policies are tied together through the Master policy, thereby creating a coherent program with opportunities for risk pooling. A catastrophic one-time loss or isolated frequency in one country may not unduly penalize the subsidiary in that country. The loss experience in any one country can be averaged against the worldwide experience of all the insured's operations.

Typical Program Structure

Most multi-national insurance programs, including CMPs, are a combination of admitted, non-admitted and independent local placements. The following graph shows how a typical International program is structured. Placements fall into three general categories:

FRUTAROM
FOUNDED 1933

International Program Structure



(red)	Coverage Placed in the Local Market Independent of the Worldwide Program.
(blue)	Coverage placed in the Local Market as underliers to the Master Policies.
(purple)	Master/Worldwide coverage.

Intenational programs usually consist of several types of placements. The structure of the program may differ from country to country depending on the exposure, company structure, insurance requirements and insurer capabilities.

FRUTAROM
FOUNDED 1933

Thank You

PASSION FOR TASTE AND HEALTH