Local diversity, global consistency

Insuring global corporations with international insurance solutions is becoming ever more important, says Vinko Markovina in a special Global Risk Dialogue Q&A.

Many companies today are doing business on a worldwide scale, operating globally with multiple locations for manufacturing and sales around the world. This poses many challenges to harmonize an entire operation. With regulations, each entity needs to take insurance in the territory where it is registered. A local policy is issued in each of these territories. It responds to the local risks and exposures of the client. To ensure consistency of coverage, the various local policies are pooled via facultative reinsurance and a master program is agreed upon. It is installed to create a global umbrella covering all of these territories where needed and permitted. A master policy harmonizes coverage across the full insurance program and ensures that all regulatory conditions are observed and met at the local level.

Vinko Markovina heads the new Allianz Global Corporate & Specialty function of International Insurance Solutions. Global Risk Dialogue asked him about challenges in setting up global solutions and the latest trends in international insurance regulations.
“A centrally controlled multinational insurance program covers the customer’s global risks through consistent and transparent coverage.”

Vinco Markovina
Senior Vice President & Global Practice Leader, International Insurance Solutions

Q: The challenges in developing international solutions must be varied and complex. What are some of the things you look out for?

A: Yes, there are definitely some hurdles and pitfalls in this business. We have to be on our toes at all times because local insurance and fiscal rules are inconsistent, often vague and sometimes even contradictory. Insurance taxes are different from country to country and, in some cases, even from state to state. It’s easy to miss something and suddenly be in violation of local compliance laws, accounting practices and rules or foreign exchange controls. Russia, India, China and Brazil are especially challenging to operate in since they have very nationally oriented and restrictive rules in place. But we have a central team here at AGCS. We collect data from all markets with the support of local Allianz companies to seek out all the potential pitfalls and loopholes allowing us to give guidance to clients.

Q: Why are global programs becoming more important for risk managers?

A: Well, a centrally controlled multinational insurance program covers the customer’s global risks by providing consistency and transparency of coverage while at the same time matching individual local business and market requirements. It also provides the advantages of centrally managing the purchase of insurances globally, thereby facilitating administration, consolidation of loss information, and coordination of loss control and risk management procedures.

Q: Are there more than 200 local insurance and tax laws, which vary by country. Being compliant with local regulations must be challenging?

A: It’s very challenging and maybe one of our biggest challenges when structuring a global insurance program. From our perspective, compliance with local tax and insurance regulations is just a must. As you mentioned, there are more than 200 local laws which means each country, even each state, has its own regulatory requirements, which determines how the resident or domestic company or permanent establishment of that country can buy insurance, and the amount of insurance premium taxes that must be paid. Our network of companies is licensed in all countries. They operate within the framework of local market requirements and practices, thus ensuring proper and compliant delivery and processing at the local level.

Q: Is there a trend towards global coordination and harmonization of insurance regulation? Which organizations are the main drivers of this process?

A: There are limitations in doing this since all countries refer to their sovereign rights and constitution, which has an impact on business and how they regulate their market for consumer protection. Global institutions like the World Trade Organization and Organisation for Economic Cooperation and Development demand some alignment but this will only be achieved gradually. Whatever trends there are in the industry seem to be coming from carriers that have invested in some kind of compliance systems or databases, similar to our International Licensing Guide (ILG). With it, we would say, some mixed results. We have seen to very little involvement from the people that actually control regulations; that is the regulators. In fact, the local regulators, or association of regulators, would need to provide clear explanations or interpretations. Rules at present are often inconsistent, vague and sometimes even contradictory, which leaves room for interpretation and uncertainty. I do not see a simple solution here or even a solution unless either the regulators are involved or lead this topic.

Q: What do you think of the idea to create a market-wide database to ensure that global programs are compliant with local regulation?

A: In theory, this is an excellent idea and we would contribute to its success if we felt success could be achieved. As stated above, unless regulators are heavily involved in creating such a solution for the industry, I do not foresee success.

Q: There is a growing demand for D&O to be included into global programs. Why is this challenging and what is the AGCS approach?

A: In the past, D&O was commonly insured on a non-admitted basis, having all risks and exposures considered at a corporate level in a single, global policy. However, like assets, it is recognized now that managers or directors are key in the D&O world, over the past several years, experienced for the first time the difficulties that can arise if there is no local policy in place where there should be one. As D&O is mostly severity, not frequency, and if you are claim-free for 30 years in India or China, why would you bother to put in place local policies while the main D&O risks sit with the parent company’s board in the domiciled country. With this mindset, local policies were just not seen to be a priority in the past.

There is today a greater awareness for the need for global solutions. The AGCS global structure lends itself to providing truly global solutions through a local policies process; this is something only a handful of insurance providers can offer.

Q: Will there be more pressure on especially restricted markets like India or China to open their markets to international insurers?

A: Like with any other business or service, the insurance industry in these countries will need to mature and catch up with other developments. Multinational companies investing in these countries want insurance services, products and capacity similar to what’s made available in their domiciled countries. With support from AGCS and other Allianz companies, who are established in these countries, we can provide aid in product enhancements by “importing” existing and new features from global covers that get gradually adopted and approved by local authorities. Over time, these markets will adjust, particularly when they recognize all the benefits that can be realized in their own markets.

Q: Which aspects should a risk manager have considered to find an optimal international insurance solution for his company?

A: What you hear within the industry is that risk managers with cross-border exposures want to deliver comprehensive, consistent and compliant insurance programs that cover all the main risks at a cost-effective price that they can centrally control and support with internal guidelines. The bottom line is that customers, when selecting a carrier, need to have the security that, in the event of a loss, they can make a valid claim and have it paid. They should look for certainty that the claim can be paid in the required way and in the required place, and ensure that the organization is totally compliant.

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