

CLAIMS IN GLOBAL PROGRAMS IGNORE AT YOUR PERIL

An insurance news bulletin from
COMMERCIAL RISK EUROPE



Winfried Rommel
Head of Global Practice
Group and Regional Practice
Leader CEE/LATAM,
Allianz Multinational
+49 893 800 3647
winfried.rommel@allianz.com

In today's global market place, multinational entities face important decisions in terms of risk assessment and insurance placement. As businesses increasingly expand into new markets, today's risk manager must navigate carefully through a sea of potential external challenges, not least the need to harmonize with the myriad of regulatory and compliance hurdles in each of the jurisdictions from which their business operates. In parallel, each business has a different methodology on risk appetite and how to structure their insurance buying. A global programme can deliver consistency, breadth of cover and economies of scale; however, creating a structure of centralized decision-making and consolidating local covers that historically may have been placed separately is sometimes a daunting and always a timeconsuming task.



Graeme Condie
Global Customer Excellence
Leader,
Allianz Multinational
+44 203 451 3661
graeme.condie@allianz.com

Global entities are rapidly maturing in terms of risk awareness and risk management, and many will already have a robust structure in place to identify and internally respond to varying risk types. In collaboration with a competent global insurer who is well-versed in understanding businesses in diverse trade sectors, a company can manage its risk and exposures on corporate level. Insurers can provide added-value by tailoring insurance provision according to a client's changing needs and geography, as well as by highlighting the influence of new and emerging risks such as cyber or

reputational risk, which can rapidly escalate up the risk manager's agenda. For those companies committed to a global programme approach, the optimum structure is one which uses a global master cover issued in the client's country of domicile to provide umbrella protection over and above underlying local policies. The programme should ensure a "gap-free" level of coverage bearing in mind a company's unique financial structure.

The benefits for international businesses derived from a global programme can be summarised by what AGCS refers to as the 4 "C's". In summary these are;

1. **Control:** delivering a holistic insurance placement, management and claims process across the company's locations which is centrally coordinated and controlled and provides transparency and oversight to ensure effective quality control.
2. **Compliance:** ensuring that local policies comply fully with all local regulatory and tax considerations.
3. **Coverage:** ensuring comprehensive coverage of relevant risks through a combination of a master programme (with Difference in Conditions / Difference in Limits coverage) with local policies.
4. **Cost:** improving efficiency and effectiveness through economies of scale by way of central purchasing and administration.

Closer examination of each of the four pillars reveals the critical importance of Claims in terms of global programme structuring and management. Whereas historically the Claims function was often regarded by insurers as a back office inconvenience rather than front office necessity, the focus has changed such that Claims is rightly emerging as a strategic, client-facing discipline, particularly in the sphere of global insurance programmes. How an insurer responds in terms of claims response, loss mitigation and final claims settlement will ultimately demonstrate their ability to deliver on the contractual promise made.



Pro-active and robust claims management is a pre-requisite and the early engagement of an insurer's claims expert can reap significant reward. More specifically such an expert can provide specialist advice on claims scenario planning, i.e. looking at the types of claim which could arise given a client's specific geographic risk profile and explaining how the policy will or will not respond – this type of discussion gives a client a different perspective in terms of their own risk management and can help to ensure that coverage is consistent and at an optimal level. Moreover the handling of large, sometimes complex losses demands that communication is meticulously co-ordinated across a comprehensive network of experienced contacts: as a member of an integrated programme team the claims expert can explain what is deliverable in different territories and how the network (centrally and locally) will respond in the event of a loss.

The alignment of central and local claims services is often assisted by the provision of a "Claims Protocol" – in essence this acts as a reference point for key contacts and codifies the responsibilities of each party, giving a client an understanding of the claims reporting mechanism and of the basic information that may be required in the early stages following an event. A Protocol can be particularly useful in a catastrophe situation – knowing how to deal with a disaster, being able to rely on the appropriate local resources and having immediate access to a nominated loss adjuster are all vital. A failure to implement the necessary claims protocols may delay a business from resuming its activities within the quickest possible timeframe, can

potentially hinder attempts to mitigate or reduce losses, could prejudice subrogation or salvage actions or ultimately delay the actual loss settlement.

Of course at times claims can offer challenges, mainly deriving from local peculiarities in certain territories or in circumstances where a claim occurs in a remote location meaning that access is restricted and adjustment thereof becomes more difficult. A competent insurer partner is one who can flexibly overcome these challenges and can adapt their business model to cater equally for the complex or high frequency, low value claims scenario. The biggest single claims challenge however concerns potential regulatory and tax compliance issues inherent in global programme claims settlements which are made under cross border master coverage provisions agreed at the corporate level.

A large number of global programmes will comprise a series of local policies with a DIC / DIL master cover endorsement acting as overarching "umbrella" protection for the corporate client who is the policyholder and beneficiary. Obviously any claims payment that falls under the local coverage can be fully compensated at local level, however whether a claim can be reimbursed locally in whole or in part from cross border master coverage depends upon the admitted versus non-admitted status of the territory as well as the applicable income tax and exchange control provisions. If admitted status exists (i.e. non admitted is allowed and there is no requirement for local risks to be covered by a locally licensed insurer) then the cross border cover component can be freely paid to the parent or can, by agreement with the parent, be legally remitted by the insurer into the country concerned and in the appropriate currency. The tax treatment of such payments (i.e. whether or not they are treated locally as taxable income) varies from country to country and it is for a client's tax and finance experts to determine whether and what the implications might be at local or central level.

To add even more complexity, the situation may differ according to the line of business. For Liability claims there could be cases where joint head office / local subsidiary liability for injury or damage is established and here the compensation due to be paid to a claimant might be payable without any tax impact. Conversely for a Property loss where a settlement is made to completely rebuild a location this could be considered a surplus contribution, attracting taxation.

Selected insurance markets offer the option of a financial interest clause as an alternative endorsement in the master policy to cater for the element of cross border coverage. A financial interest clause is designed to protect the parent's financial interest in a subsidiary, the rationale being that insurable interest derives from the parent being adversely affected by a loss event which adversely affects the subsidiary.

An issue however can again arise when the parent comes to determine how to distribute the claims proceeds it may receive under financial interest. Whilst there is freedom to decide how to manage any claims proceeds, should the funds be repatriated to a technically uninsured local subsidiary then tax issues can and do arise. Moreover recent case law suggests that even if claims proceeds are retained by the parent outside the territory where a claim has taken place, then the authorities in that country could still pursue for a tax payment. In other words, financial interest cannot claim to be a truly effective means of addressing local taxation requirements.

In summary, whichever cross border coverage solution is considered, it must be viewed and evaluated in the context of a client's own financial framework and core financial priorities. This issue should be fully considered at the design and set-up phase of a global programme, such that the structure for allocation of premium (which is treated as insurance expense in the income tax return) allows for related claims compensation to be treated reciprocally as non-taxable income.

With greater focus on compliance, a future focus for insurers may be on the provision of more local policies offering maximum coverage and limits for the benefit of the client. If a policy is written to the best local standards and fully addresses local risk and exposure

this is likely to give clients an increased level of comfort that they are properly protected locally without an overreliance on overarching master provisions and in this way the administration of claims is significantly simplified for them.

Conclusion: Claims represents the "shop window" for an insurer and is a key differentiator of client servicing. For global programmes proper Claims intervention can help to engender strong client / insurer trust, to validate the nature and extent of insurance cover demanded by large corporate clients and to alleviate compliance "headaches". The message is simple: bring Claims "into the limelight" and don't treat as an afterthought

