The Actuarial Profession
making financial sense of the future

Global Insurance Programmes

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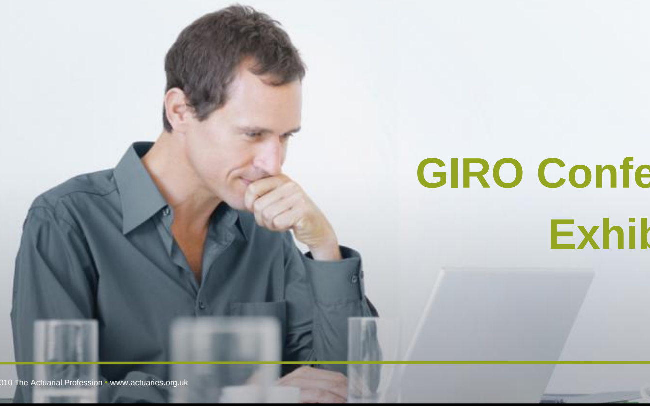

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Agenda

- Why do companies buy them?
- What are they?
- Specific features
- Country specific challenges
- Transfer pricing
- Implications for the actuarial profession
- Case study

Why do companies buy them?

- Compliance
- Consistent coverage
- Cost effective
- Control
- Certainty

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Compliance; Admitted V Non-Admitted

- Admitted Insurance – a contract written by an insurer who is licensed or registered in the country where the risk is located
- Countries that permit non-admitted insurance
  - UK, Sweden, USA, Canada ……
- Countries that do not permit non-admitted insurance;
  - China, Brazil, India, Russia, Mexico, Argentina, Switzerland ……

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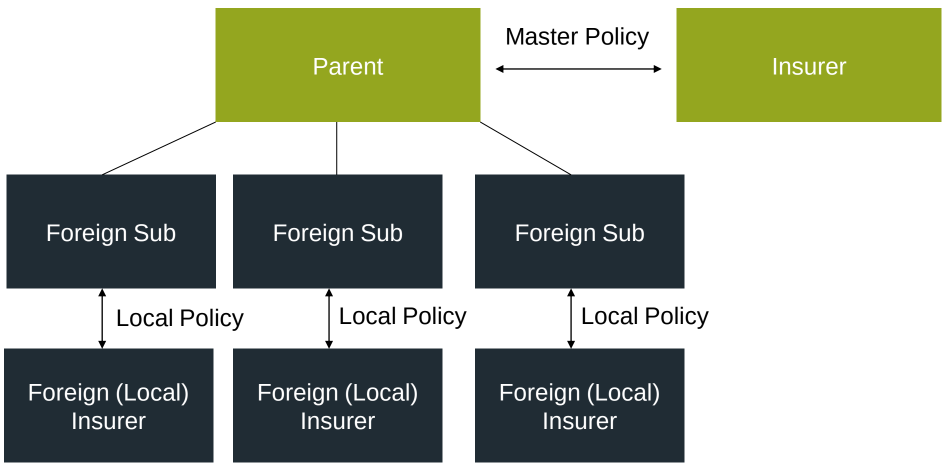
Global Insurance Programme Structures

Three potential structures

- Master policy only with worldwide coverage
- Master policy & separate stand-alone local policies
- Master policy & linked local policies

Potential Structure of a Global Insurance Programme



Local Policies (Admitted)

- Issue policy in <u>local</u> country
- Insure <u>local</u> risks
- Allocate premium in <u>local</u> country
- Pay taxes in <u>local</u> country
- Pay covered claims in <u>local</u> country.

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Practical Challenges

- Limit of local policy
- Local coverage
- Regulatory filing requirements
- Cash before cover
- Insurance premium taxes
- Is an authorised local broker required
- Can the risk be reinsured/exported 100% to another country
- Administration

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Possible Solutions

- Master policy
  - DIC - Difference in Conditions
  - DIL – Difference in Limits
- Aggregation of limit
- FOS concept
- Insurable interest

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Insurable Interest

- Master Policy insures parent company
  - Insurable interest: protect subsidiaries based on parent's, legal, contractual or ownership interest
  - Parent company will receive indemnity for parent's own loss, not the local loss of its subsidiary
- Policy covers parent's insurable interest in <u>one</u> country
- Allocate premium to <u>one</u> country
- Pay taxes in <u>one</u> country
- Pay covered program claims in <u>one</u> country

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Transfer pricing

- Arm's-length principle
  - Inter-company payments
  - Local taxable revenue and deductions
- Several methods (non-prescriptive)
  - Exposure based
  - Experiences based
- Documentation

Actuarial principles

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Adidas Case

- Fire at a warehouse in India
- Adidas AG received R$900m ($20m)
- Adidas India received R$470m ($10M)
- Adidas India
  - GIP taken out by Adidas AG
  - Insurance claim received abroad isn't taxable
- Tax department recommended Adidas India be taxed on R$900m paid to Adidas AG

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Implications for the actuarial profession

- Pricing
  - Suitable method for rating local exposure
  - Consistent methodology for premium allocation
  - Consistent methodology for calculation of IPT
- Reserving - Do GIP’s have a longer tail?
  - Understand the structure
  - Limits exposed
  - DIC/DIL
  - Two policies responding to the same incident; local and master
  - Where should the claim be paid?

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Questions to ask before we begin

1. Is local coverage adequate? Is DIC needed?
2. Is local limit adequate? Is DIL needed?
3. If DIC/DIL is needed, can it be compliantly provided from outside the local country?
4. If yes, are premium taxes due and who will pay?
5. If no, how may DIC/DIL be compliantly structured to meet expectations?
   - What is covered?
   - How is premium allocated and paid?
   - How will claims be adjusted and paid?

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Case Study – Global D&O programme

- Global US drinks company
- Extensive operations in 7 European countries & Brazil, China, India and Mexico
- Would like $200m cover for the main board
- $25m for local subsidiary boards
- Compliance is very important, but so is cost & control
- Questions – allowed 3 per group