Global Insurance Programmes
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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

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 ……
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

- Parent
- Master Policy
- Insurer
- Foreign Sub
  - Local Policy
  - Foreign (Local) Insurer
- Foreign Sub
  - Local Policy
  - Foreign (Local) Insurer
- Foreign Sub
  - Local Policy
  - Foreign (Local) Insurer
Local Policies (Admitted)

- Issue policy in local country
- Insure local risks
- Allocate premium in local country
- Pay taxes in local country
- Pay covered claims in local country.

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
**Possible Solutions**

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

**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 one country
- Allocate premium to one country
- Pay taxes in one country
- Pay covered program claims in one country
Transfer pricing

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

Actuarial principles

- Documentation

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
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?

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?
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