

viewpoint

Employee benefits in Latin America... Can MultiLatinas capitalise on captives for EB? Hear how CEMEX has used its captive to provide more for its people

Captives... you can't attend a global employee benefits (EB) conference right now without hearing about the advantages multinationals can enjoy by using one. Captives have been used to write EB lines of risk for quite some time now, but the increase in their usage over the past five plus years has been impressive.

Risk, HR and captive managers have, more and more, been coming together to look at the overall business benefits of managing their group life, accident, disability and medical risks in a captive. Yet, despite the recent growth and the many advantages of doing so, adding EB into a captive is still not standard practice. Depending on which sources you read, there are upwards of 6,000 captives and fewer than 150 are writing EB business.

And that number is even lower when you look at multinational companies based in the Latin America and Caribbean (LATAM) region. Despite the size of these "MultiLatina" companies – multinationals headquartered in the region – there are still very few that are exploring and capitalising on the opportunity that captives can provide for both risk and HR managers.

The region has been slower than more mature markets – like Europe and the US – when it comes to adopting the captive model. And that's still the case for property and casualty (P&C) risks too, not just EB.

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But that could be changing. At a Captive International roundtable in 2021, panellists shared how the hard commercial insurance market – when demand for insurance is high and there's a reduced supply – has been driving interest in captives. Eduardo Fox, Consultant at Appleby, said "Many LATAM companies have repositioned their captives to better utilise them. Those who do not have captives are exploring forming one... From our experience... a lot of the renewed interest has come from Mexico."¹

So, where are we today? Are more LATAM companies exploring captives for employee benefits? And if not, what's holding them back?

LATAM quick facts

Regions included: South America, Central America, Caribbean and Mexico

Largest economies (position in world): Brazil (12th), Mexico (15th)²

Region economic growth:
6.7% (2021)

Projected economic growth:
2.6% (2022) 2.7% (2023)³



Insights from a MultiLatina – CEMEX’s story of writing EB business in a captive

Before we start looking in depth at these key questions, what better way to find out about the benefits of EB captives for MultiLatinas than by speaking to an organisation that has been doing it for five years. We sat down with **Rene Martinez Flores, Global Director of Insurance & Risk Management at CEMEX** to find out a bit more about how using a captive has benefited the business.



Thanks for talking with us Rene – can you tell us about CEMEX’s journey to writing EB to a captive... did you have an existing P&C captive?

CEMEX has been writing employee benefits to a captive since 2017, and to our knowledge was among the first EB captives in LATAM.

The journey to an EB captive was a natural progression for a multinational with the risk appetite of CEMEX. There was a P&C captive already in place, which made the inclusion of the EB lines a little easier.

In terms of EB, we had a healthy risk appetite before starting the captive programme. The major medical coverage for our people in Mexico – our largest population – was run on an administrative services only [ASO] arrangement. This means that we were self-funding medical benefits in Mexico for a long time before the captive.



What are the biggest successes of the EB captive programme so far?

Implementing an EB captive in LATAM at a time when the concept was quite novel in the region was a success in its own right. Since the implementation, the captive’s governance and control of risk allowed for flexibility in coverage for our people during the onset of the COVID-19 pandemic.

As well as that, we have recently launched an initiative to ensure all CEMEX employees worldwide have coverage for preventative cancer screenings. These benefits were only possible because of the captive being the final risk bearer – the local insurers made it clear these wouldn’t have been available on a local risk basis.

As the captive continues to mature and grow in scope, the opportunities to use it as a vehicle for the benefit of the global CEMEX people, and not only for budgetary purposes, will only continue to grow.



One of the biggest challenges with a captive programme for EB is internal collaboration. Do your different business units – risk management, HR and the captive – work closely together and how has that helped to set up the captive to be a success with EB?

There is, necessarily, a lot of discussion and collaboration between the risk management leader, the captive manager and the regional HR leads. It has ensured that captive decisions are made with as much consideration to the impact on CEMEX’s people as possible. Instead of functioning in silos, the opportunity to collaborate has made for a more comprehensive approach to the captive and global EB management.



CEMEX – quick facts

Industry: building materials

Global employees: 46,000+

Headquarters: Mexico

Countries: 50+

Captive domiciled in: Bermuda

Captive writing EB since: 2017

EB lines of business in the captive: medical, life, accident and disability

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A fascinating opportunity to offer improved benefits

And it is exactly that – a fascinating opportunity. Historically, the captive model was seen as a risk retention vehicle, where an employer could retain the underwriting profit. Now, employers are using the improved rates and their role as the final risk carrier to fund new benefits that wouldn't have been available locally – due to local legislation, local insurer risk appetite and more.

Rene mentioned that CEMEX is using its captive to fund cancer screenings for its people around the world and offer COVID-19 benefits. And they're by no means the only captive doing that.

Mauricio Suarez, Regional Manager LATAM at MAXIS GBN commented “We are seeing a real trend of employers writing EB in a captive and pricing it at breakeven. This is allowing them to reinvest the savings to provide more and better benefits for their people. CEMEX offering enhanced cancer screening is a great example of this, but we are seeing other MAXIS clients doing the same or similar.

“The captive could also be used to help reach diversity, equity and inclusion (DE&I) goals. Coverage for same sex partners, gender dysphoria treatments and other benefits that may not be available locally or on local risk can really help win the war for talent and retention.”

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And this presents a great opportunity for employers in the region. In 2020, a survey of 375 companies with operations in LATAM showed that nearly two thirds had increased their benefits to workers in response to COVID-19 and the physical and mental health threats it created.

According to Courtney McColgan, Founder and CEO of Runa HR that conducted the survey, “while these changes were already on the horizon, they are particularly ground-breaking in Latin America, where employers face strict legal requirements for employee benefits and rarely step beyond those boundaries. However, as the employment landscape becomes simultaneously more competitive and more precarious for workers, companies across all sectors are finding new ways to hold on to their employees and ensure their safety.”⁵

As the long-term impact of the COVID-19 pandemic plays out and the world of work falls into its new status quo with a renewed focus on people's overall wellbeing, the LATAM employers using a captive to offer enhanced benefits could find themselves attracting the best talent in the market.

The benefits of writing EB through a captive

- Retaining underwriting profits can lead to potentially greater returns on investment vs other global programmes (pools, global underwriting)
- Better understanding and pricing of risks
- Diversification of an existing captive as EB risks don't correlate with most P&C risks
- Greater control of local offerings, being able to add cover or remove exclusions not possible otherwise.



So, why are there not more MultiLatinas using captives to manage EB risks?

As Rene said, the concept of an EB captive in LATAM was “novel” when CEMEX began their work in 2017. At that point in time, captives, of any type, were just not that common in the region. Less than US \$3 billion premium was written through captives from Latin American-based companies in 2017 - compared to US \$90 billion globally for the same period of time. And, of course, EB would have only been a small sliver of that US \$3 billion.

But why? We asked Rene why he thought the LATAM region might be further behind some other regions when it comes to captives. He said:

“LATAM as a block is historically slower to adopt concepts or strategies that may be commonplace in other regions. While there are numerous P&C captives throughout the LATAM region, employee benefits have usually been seen as a local concern reserved solely for the HR side of the business and not viewed as an opportunity for risk management and funding programs as P&C risks have been. As the concept continues to grow in popularity and local and global accounting stakeholders realise the benefits of a captive for EB, we should see increased interest in the captive EB model.”

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Some challenges to overcome

But as with many things that offer real benefits, getting there isn't always that simple. Here's a few examples of potential challenges or roadblocks in the way...

● Education

Adding EB to a captive is a long process, and if you don't know the benefits, you won't invest the time and resources in making it happen. The LATAM region is still less aware of the benefits than elsewhere in the world. Brokers, consultants and networks are helping to increase understanding in the region, but this can take time.

● Centralisation

Another key for success, which can be an issue for some companies. A lot of large LATAM businesses started as small, family run firms and grew through acquisitions. This means that, often, HR, compensation and benefits and other functions are managed locally rather than centrally. Having global oversight is crucial for successful global EB programmes – and even more so for captives.

● Legislation and regulation

In some countries in the region it can be incredibly difficult to cede premium outside of the country. According to Maria Escobar and Alejandro Santos from Marsh “Some countries have seen less development around captives and are overseen by regulators that are still trying to understand where captives fit in within the broader risk management strategy framework.”⁶

However, there has been some movement and some countries, including Brazil, are “relaxing” insurance and reinsurance regulations, potentially making captives a more favourable option going forward.⁷



What does the future hold?

It's impossible to tell what's next for captives in the region, but there are definitely promising signs that captives in LATAM are becoming both more popular and more achievable. The experience of CEMEX and others in the region shows that the journey to a captive is possible and can be very rewarding.

The move away from providing a minimum standard of employee benefits to, instead, seeing them as a way both to care for people and attract talent is one that shows that employers are waking up to the power their benefits offering can provide. And if reinsurance legislation and regulation continue to relax and multinationals see that that captives can allow them to offer more benefits without costing more, the growth possibilities in the region are huge.

For the time being, it's vital that EB professionals continue to share their expertise and help multinationals take the captive opportunity when it arises.



1 Anon, Captive International <https://www.captiveinternational.com/contributed-article/latin-american-captives-great-opportunities-and-challenges> (sourced May 2022)
 2 Anon, Investopedia <https://www.investopedia.com/insights/worlds-top-economies/#toc-12-brazil> (sourced May 2022)
 3 Anon, The World Bank <https://thedocs.worldbank.org/en/doc/cb15f6d7442eadebf75bb95c4fdecb3-0350012022/related/Global-Economic-Prospects-January-2022-Regional-Overview-LAC.pdf> (sourced May 2022)
 4 Anon, CEMEX <https://www.cemex.com/about-us/company-profile> (sourced May 2022)
 5 Courtney McColgan, Crunchbase <https://news.crunchbase.com/news/future-of-work-latin-america/> (sourced May 2022)
 6 Maria Escobar and Alejandro Santos, Captive International <https://www.captiveinternational.com/contributed-article/latin-america-a-region-waking-up-to-captives> (sourced May 2022)
 7 Anon, Captive Insurance Times https://www.captiveinsurancetimes.com/countryfocus/country.php?country_id=173&navigationaction=countryprofiles&page=&newssection=countryprofiles (sourced May 2022)

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