



viewpoint

The Asian powerhouse: should growing multinationals look to captives to help manage their employee benefits programmes?

The rise of economic powers such as China and India over the past decade, and Japan's continued role as a leading global economy, has seen Asia, and particularly the Asia-Pacific region, become the world's most economically powerful market. And this is not expected to change any time soon. As more and more Asian-Pacific companies become true global players and able to attract and fight for the best talent in the market, should multinationals be looking to captives to manage the rising costs of their employee benefits (EB) programmes?

According to The World Economic Forum "In 2020 Asia's GDP will overtake the GDP of the rest of the world combined. By 2030, the region is expected to contribute roughly 60% of global growth. Asia-Pacific will also be responsible for the overwhelming majority (90%) of the 2.4 billion new members of the middle class entering the global economy. The bulk of that growth will come from the developing markets of China, India and throughout South-East Asia.

"We are also seeing the continued emergence of Asian multinational corporations – Huawei in technology, DBS in Banking, Unicharm and Kao in personal care; and Suntory, Universal Robina and Indofood in F&B to name a few. Entrepreneurialism is peaking with more than 140 unicorns in Asia as of 2019. China leads in the number of patents held in artificial intelligence and deep learning."¹

And the growth of the region looks set to continue. Goldman Sachs expects Asia-Pacific gross domestic product (GDP) to grow to 4.9%

in 2020 from 4.7% in 2019, with growth driven by fading trade tensions, easier financial conditions, supportive fiscal policies and an improved industrial outlook.²

What is a Unicorn?

A unicorn is a privately held startup company valued at over \$1 billion. The term was coined in 2013 by venture capitalist

Aileen Lee, choosing the mythical animal to represent the statistical rarity of such successful ventures.³



Naturally, as the economies in the region continue to grow – and multinationals and exciting startups thrive – attracting

and retaining the best employees in these competitive markets will be vital to the success of all businesses. Based on the trends we are seeing, employee benefits (EB) – particularly tailored and personalised packages – are likely to become ever more important in attracting the workers of the future.

But with medical costs soaring and employers being required to offer ever more substantial and personalised EB packages, can captives help these Asia-Pacific multinationals offer the benefits they need to remain competitive while helping to keep costs at a more manageable level?

"As the economies in the region continue to grow – and multinationals and exciting start-ups thrive – attracting and retaining the best employees in a competitive market will remain key to the success of all businesses."

Growth of captive structures

While the Asia-Pacific captive insurance market is, as yet, far smaller than those of Europe and North America, captive structures are relatively well known in the region. The broad expectation is that the use of these vehicles will continue to increase – particularly for managing employee benefits programmes.

In a report published last year, ratings agency AM Best said it expected “significant captive insurer formation to increase in Asia-Pacific domiciles as economies grow and businesses seek new and more sophisticated ways of risk management and control... Aside from providing cover for traditional property and liability risks, organisations are increasingly using captive insurance to underwrite non-traditional classes of risk, such as cyber, employee benefits, trade credit and environmental liability.”⁴



Juliet Kwek, Regional Director Asia-Pacific at MAXIS GBN, also believes the use of captives is set to grow. “The use of captives to manage employee benefits is an exciting opportunity for Asia-Pacific multinationals. There’s great potential for the captive market here, particularly around the need to better manage costs and deliver the data analytics and insights that businesses need to define and refine their EB programmes.

“Multinationals are using employee benefits to diversify their current captive risk, which is mainly ‘non-life’ risk, and to have more control over their EB programme offerings. Given that EB risks are more predictable, captives are the ultimate way for a centralised multinational to manage its EB.”

The growing employee benefits market in Asia-Pacific

Willis Towers Watson’s most recent Asia-Pacific Benefits Trends survey highlighted the change in perception of EB in the region.

“From a transactional, ‘check the box’ item, benefits have evolved into a true attraction and retention tool. Today, employers understand that their benefit strategy can be instrumental in shaping the type of organisation they are, and the way their employees — and their peers — perceive them.”⁵

According to the survey, Asia-Pacific businesses have top four priorities for their benefits programmes.

1. Incorporating wellbeing — including financial wellbeing, physical health and emotional wellbeing and stress — into the overall benefits strategy (60% in Asia-Pacific; 66% globally)
2. Enhance work policies, e.g. flexible work, recognition, mentoring, training (61% in Asia-Pacific; 64% globally)
3. Align benefit provisions with market norms and employee wants and needs (61% in Asia-Pacific; 62% globally)
4. Incorporate I&D into benefits programmes’ design (50% in Asia-Pacific; 55% globally)

EB challenges in Asia-Pacific

The key challenge facing all employers is rising costs and the Asia-Pacific region is no different with 69% of Willis Towers Watson survey respondents saying this was a top challenge. Three-quarters, or more, of employers in Hong Kong, Singapore and the Philippines are worried about rising benefits costs.

However, cost isn’t the only challenge. The different wants and needs of a multigenerational workforce (and providing benefits for them) was the second largest challenge according to the survey respondents. Less than half of employers also believe their benefits package is tailored to meet the specific needs of their workforce.

“Employee benefits are being challenged to do more: to better target a broader concept of employee wants and needs. This may help to explain underperformance of benefits programmes relative to organisational goals: benefits programmes that were fit for purpose in the past are not addressing the changing needs employers see for the future... In Asia-Pacific, less than half of employers believe their benefits package is tailored to meet the specific needs of their workforce.”

The challenges of further adoption

Despite the growing EB market and the potential of captives for managing global programmes, there are some challenges to further adoption. Of the 6,337 captives worldwide in 2018, only 2.8% were domiciled in Asia-Pacific and AM Best thinks the slow growth in the region is mainly due to the “persistently competitive insurance market... with abundant capacity available at cheaper costs”.



A lack of knowledge and understanding about captive insurance also “pervades” the Asia-Pacific region, with the agency stating “this general lack of awareness also has contributed to the low captive insurer count in this region.

“A significant challenge is the inherent lack of knowledge and understanding; not only is there limited information available on captive insurance and its benefits in Asia, there are also few avenues for businesses to turn to for more information. This general lack of awareness has resulted in the low captive insurer count.”⁴

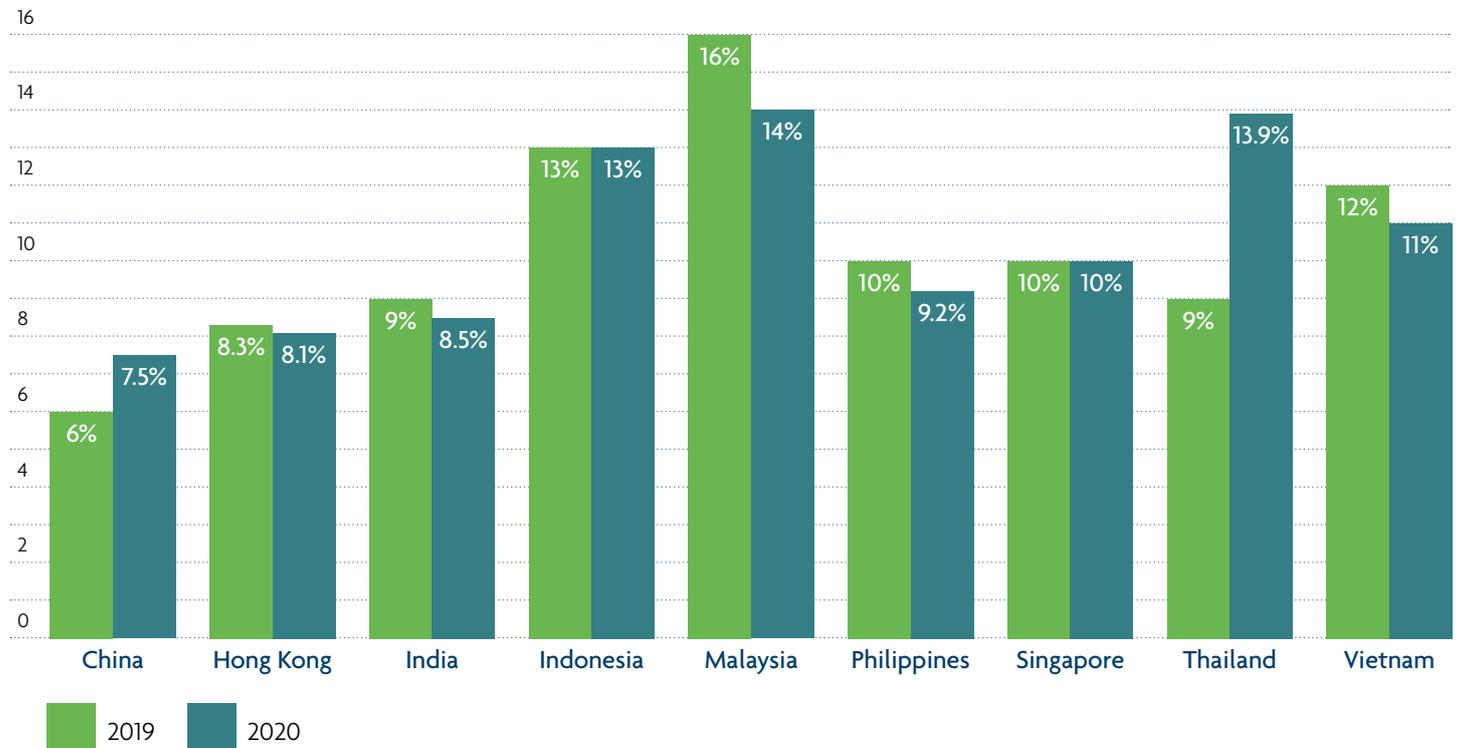
The priorities of Asian-Pacific multinationals may also be a reason for this slow adoption. While transferring risks to insurers through captives, pooling and reinsurance strategies are recognised as a means to manage costs, they were only the fifth highest priority for employee benefits professionals in the

region according to Willis Towers Watson’s survey – behind items such as better claims management and tax optimisation.⁵

But managing costs – and the role that a captive can play – could well start to move higher up that priority list given the high rate of medical inflation in the Asia-Pacific market. Medical costs are forecast to rise from 8.6% in 2019 to 8.7% in 2020 in the region, with Indonesia, Malaysia and Thailand seeing the largest projected increases.⁶

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Aon 2020 Global Medical Trend Rates Report – Asia-Pacific⁶



As the Asia-Pacific economy continues to grow and thrive and multinationals look to take advantage of the opportunities in the market, the role of captives for managing EB risks could help multinationals create programmes that truly attract and retain the best employees.

Given that the market is currently relatively small compared to Europe and the USA, captive use in Asia-Pacific is likely to increase at a higher rate than in other markets around the world, with employers looking to take advantage for both P&C lines and employee benefits.

Multinationals in the Asia-Pacific market are faced with the exact same competitive needs as those in North America and Europe – finding and retaining talent and developing effective benefits programmes to make them as competitive as possible. It really should be a ‘captivating’ opportunity for the region.



- 1 World Economic Forum <https://www.weforum.org/agenda/2019/12/asia-economic-growth/> (sourced January 2020)
- 2 Goldman Sachs <https://www.goldmansachs.com/insights/pages/asia-outlook-2020.html> (sourced January 2020)
- 3 James Chen, Investopedia <https://www.investopedia.com/terms/u/unicorn.asp> (sourced February 2020)
- 4 AM Best <http://www3.ambest.com/bestweekpdfs/sr775097419812full.pdf> (sourced January 2020)
- 5 Willis Towers Watson <https://www.willistowerswatson.com/en-VN/Insights/2019/10/the-evolution-of-benefits-in-asia-pacific-from-transactional-to-transformational> (sourced January 2020)
- 6 AON <https://www.aon.com/apac/in-the-press/asia-newsroom/2019/press-release-19-sep-2019.jsp> (sourced 17/01/2020)

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