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viewpoint

Can multinationals help ‘insure’ a better world?

Using insurance and employee benefits to improve risk management and patient outcomes.

For employee benefits providers and private healthcare companies, accessing new markets has traditionally been based on a ‘push model’, ie, lobbying governments in developing and emerging markets to provide access to multi-national companies based in or with offices in the country. Now, the tables are beginning to turn. Governments and domestic regulators are increasingly welcoming an influx of private providers amid is a growing realisation that these providers can help improve risk management, standardise services and increase access to improved wellness and healthcare provision.

As the World Health Organisation highlights, health outcomes are highly responsive to healthcare investments. Governments are increasingly recognising that allowing access to private healthcare can reduce the burden on the state and leads to higher overall investment in preventative wellness solutions as well as healthcare treatments – all of which offers massive societal benefits.

Governments are opening markets also because they believe local organisations can learn from the big multinational institutions and in some cases because they believe existing local providers’ risk appetites can pose a problem.

This is clear in China where the insurance industry is expected to be a major beneficiary of the leadership’s recent announcement to lift the cap on foreign ownership in financial firms.

Eunice Tan, an analyst at Standard & Poor’s Global Ratings highlighted: *“The Chinese insurance sector’s risk management remains in the developing stage, and thus would benefit from a greater influx of overseas practices and professional personnel.[2]”* There is a belief that the multinational’s ability to effectively manage risk will moderate local market companies’ appetites for high-yield, short-term life insurance and other investment products.

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There can be a tension between 'big business' and local market operators when it comes to competition, but increasingly, across the globe, we see freer market access resulting in a rise in standards. Indeed, as EY highlights in Africa: *"The growing presence of international insurers is positive for the region as it tends to bring in relevant expertise, ... driving healthy growth and competition in the market."*

It's important to remember however, that this process is not, by any means, a one-way street. Larger multinational operators can often learn from the agility and innovation of smaller local players. We often see multinationals seeking to work with local partners who understand the ins and outs of a particular country's regulatory and welfare provision systems and both parties can benefit from such knowledge sharing.

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Decreasing the state burden?

As mentioned, it can be argued that the introduction of life and health insurance products[3] helps reduce the burden of providing publicly financed healthcare on the state – particularly in emerging economies – with the burgeoning middle-class groups opting for the additional protection this coverage can bring.

While some will argue this creates a two-tier system, ensuring wealth generators have health cover and then passing the cost burden to the private sector would appear to have an overall economic benefit for the local health care system. Indeed, Doctors in more developed markets such as the UK – Seth Rankin[4] for example – argue that it is better for society if private options are used stating "If you care about the NHS, you should pay for private healthcare." He argues that private healthcare is beneficial as using private doctors helps public healthcare systems cope with the rising demands on finite resources, resources which are best spent on the most vulnerable patients in society.

If we look at the example of the UAE, all employees in Dubai and Abu Dhabi must now have private health insurance and every employer must offer a scheme. Private insurance is beneficial to ensuring the UAE develops as one of the world's leading healthcare systems with excellent facilities. MetLife's[5] Employee Benefits Trends survey highlights how targeted government spending combined with an influx of private insurance providers to the UAE has led to a standardisation of health cover, just at a time when employees are becoming more conscious of their health and wellness status.

There is another advantage to opening up markets in that it can reduce costs to customers, enabling companies to operate more efficiently. Take the case of a multinational beverage manufacturer, who is now able to engage a single global provider for health, wellness and benefits provision – through its locally regulated providers – and enjoy economies of scale, rather than having to manage a network of suppliers who may offer vastly differing standards of cover.

Many companies prefer to offer the same package of benefits to all of their employees in one location, rather than administering separate plans for domestic and international employees or in different markets. Employees moving across globe within a firm expect the same level of healthcare, retirement, education and wellness benefits wherever they work. If all workers share comparable benefits, an organisation can build a unified global brand and strengthen ties between its offices in far corners of the world. Both the company and individual employees will be better off. w

Another advantage of working with a global provider for insurance and benefits is that it can reduce expenditure and premiums for employers and employees, while reducing risk. If employers have subsidiaries in multiple jurisdictions, they can place insurance contracts for several regions into a single pool covered by the same insurance network. The pooling of premiums can generate large cost savings and allow a better claims rating than would be achievable through individual contracts alone. Risk pooling also makes it easier to insure people who are vulnerable to risks through no direct fault of their own, again emphasising the positives of opening markets to multinationals, as it can offer benefits to otherwise excluded groups.

Are these developments good for local infrastructure?

The desire of global insurers to integrate blockchain technology – the transparent and responsive management of transactions in a digital format – as a fixture of the industry infrastructure will also have a positive outcome for emerging markets. The introduction of smart contract systems will reduce the requirement for documentation and manual checks allowing for much faster settlement – helping both the insured and the insurer.

A contract would first be recorded and verified on the blockchain, which would then ensure that only valid healthcare or benefits claims are paid. Once the specified criteria are met, the blockchain would trigger automatic payment of the claims without human intervention, significantly increasing the speed of resolving a claim.

Economies opening to global players in future will benefit from access to the latest technology infrastructure, avoiding the teething problems and software issues that have been problematic for many providers in more developed economies, where they have struggled with using endless quick fixes and patches to keep their systems running.

Blockchain will improve the experience of individual employees travelling or working around the globe in another way too – they will also be able to track who is accessing their personal data with verification registered on the blockchain. For sensitive data such as a person's health records, it will be possible to verify data and securely forward it to relevant treatment facilities and employers' insurers.

What are the barriers that still exist for multinationals expanding into new overseas markets?

In some markets restrictions remain despite much lobbying. Some markets still limit insurers and benefits providers setting up subsidiaries or branches overseas. Other barriers include reinsurance collateral requirements and restrictions on companies in markets being lent funds from overseas subsidiaries as well as currency constraints and sanctions issued by Ofac or the EU, for example.

In many markets, there are still restrictions on Foreign Direct Investment, or limits on equity stakes that can be taken in domestic insurers. Many countries still ban offshore providers from insuring local nationals or are introducing regulation that bans local employers reinsuring offshore or outside of the country.

However, it's important to remember that not all barriers to success for multinationals are linked to regulatory issues. Tobe Ifilli writing in Market Mogul highlights that the Nigerian market suffers from a key issue *"insurers have not managed to convince the mass Nigerian population that insurance is a product worth purchasing. Many Nigerians (including those with graduate degrees) still aren't fully informed on how insurance works and where to purchase it."*

Looking to the future

Regulators increasingly recognise how best practice operational models adopted by global insurers and employee benefits providers can improve local market standards. The advantages are also being felt at a macro level through more stringent risk management procedures. At a micro level, patient outcomes are improved because insurers invest in local medical facilities, which reduces the cost of moving patients to other countries for treatment.

Cost remains the biggest health care issue facing most countries, but the introduction of globalised healthcare solutions and an increasing switch in the burden from state provision to privately funded solutions can benefit the most vulnerable in society.

1 https://www.cnbc.com/2017/11/17/beijing-opened-the-door-to-international-investors-and-one-domestic-sector-may-be-the-big-winner.html?view=story&%24DEVICE%24=native-android-tablet
2 https://www.cnbc.com/2017/11/17/beijing-opened-the-door-to-international-investors-and-one-domestic-sector-may-be-the-big-winner.html?view=story&%24DEVICE%24=native-android-tablet
3 http://www.ey.com/Publication/vwLUAssets/ey-global-insurance-trends-analysis-2016/$File/ey-global-insurance-trends-analysis-2016.pdf
4 http://www.independent.co.uk/voices/if-you-care-about-the-nhs-you-should-pay-for-private-healthcare-a7059156.html
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