Selling the captive involvement locally

◇ BENEFITS

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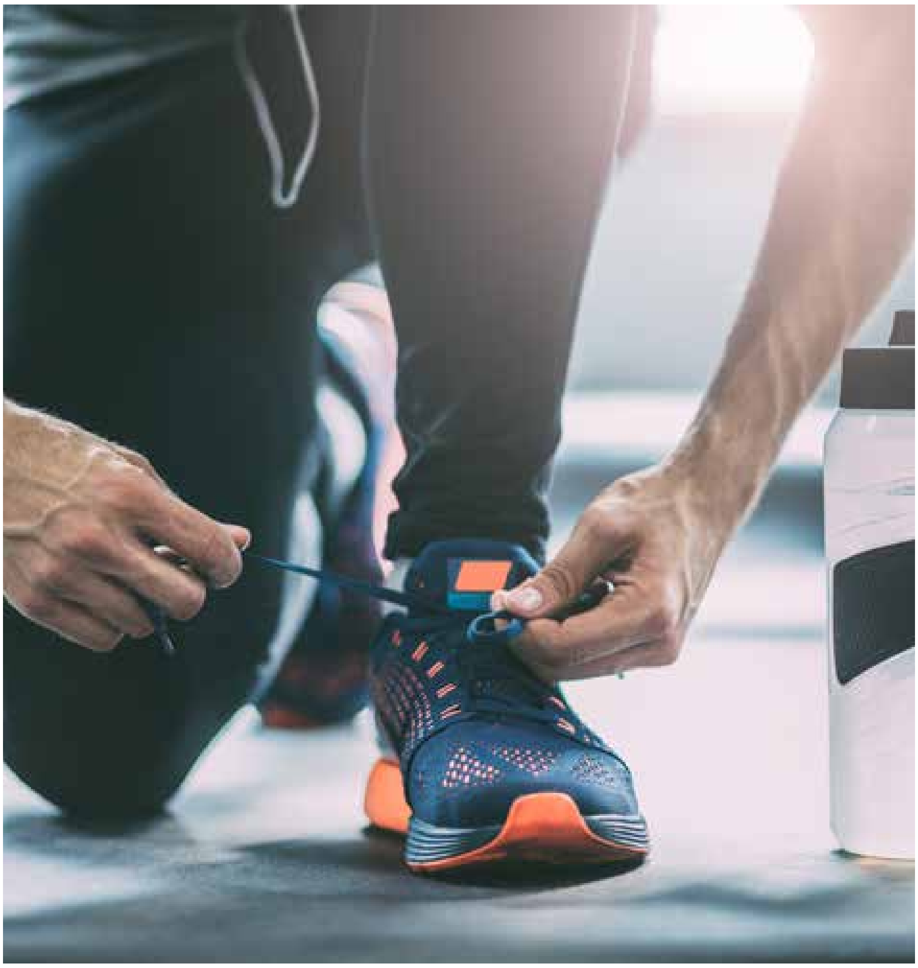

Captives are increasingly playing a role in employee benefits programmes, with economies of scale driving down the overall cost of local benefits provision and so increasing the cost efficiency of local subsidiaries. Captive involvement centrally can also mean access to better insurance conditions, greater business intelligence and more insight into long-term costs.

And interest is certainly growing. According to Marsh, the number of captives participating in multinational benefits has grown 243% during the past five years. Among Marsh-managed captives, 53% are already writing, considering writing, or likely to consider writing benefits such as group life, multinational health and disability benefits, and voluntary benefits.

But despite all the advantages, organisations often find that selling the captive concept and its involvement in the employee benefits programme to local managers is not always an easy task. There may be considerable resistance from local managers, and it will require a concerted, harmonised, combined effort from both the risk management and human resource departments.

RESISTANCE

Sometimes there can be resistance from local managers when there is a lack of understanding of the strategy and the benefits the captive can bring to their local office, according to Ricardo Almeida, head of business development, MAXIS GBN: "There can be some resistance from local managers as it may mean changing local insurance providers, who they may have built strong working relationships with over a number of years."

He continues: "Captives will work with global benefits networks that have local insurers in each market to provide the solutions the multinational needs. Yet, for whatever reason, the local office may feel this change of insurer isn't the right move for them. Educating them to ensure they understand that price isn't important anymore – as this is set by the captive – and to switch their focus to the service offered by the new local insurer/s can help change the mindset of the local office so they embrace this change."

Interest in providing employee health and wellness programmes via captives is growing

He gives the example of health and wellness solutions provided by the local insurer, which he believes are becoming a key consideration for the local manager/human resources (HR) teams when selecting which insurer to work with, as it is these additional services that can improve the lives of the employees in their local office. "With price no longer being a driving force when a plan is tendered locally, the country is freed up to focus on making an impact on the lives of the employee via these types of solutions – a clear advantage the local offices see from working with a captive," he explains.

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Damian Ross, regional manager UK, Ireland and Nordics, Generali Employee Benefits Network, notes that the resistance usually centres around price and service: "It's common for the local partner used by the captive to be not as well known in the market as the local entity's current insurer. Reticence is particularly felt where medical insurance is concerned, because the local subsidiary will understandably want to be clear that any alternative insurer offers things like an equivalent network of hospitals. As for the cost aspect, local subsidiaries need to be convinced of the merits of taking a long-term view as opposed to opting for a short-term saving."

Furthermore, he points out that it is common for the local subsidiary to have built up strong contacts and friendships with their current insurer, so a change to a different insurer can feel disruptive. "All of this has to be handled very carefully by the local broker and network, along with good communications from central HR to ensure that everyone understands what's expected and the advantages to them and their business of a potential change," he says.

CENTRAL MANDATE

When dealing with local managers, it is vital to have a central mandate, and this involves getting all these central stakeholders, such as the risk department, HR and the CFO, on board. "Having this in place will make discussions locally a whole lot easier because it basically says to local subsidiaries: this is the direction in which HQ wants to go, if you don't want to adhere to the mandate, you will need to evidence strong reasons why for any alternative direction," says Mr Ross .

He points out that a lot of companies don't have a central mandate in place and as a result the captive can end up competing with local markets, which can make selling the long-term benefits of a captive much harder, especially when it is up against soft markets in certain territories. He notes that rates in France and Asia-Pacific, for example, are particularly low, and where you have local subsidiaries in such markets, a captive can represent a tough sell where you're applying the advantages of sustainable rates.

AXA XL's Owen Williams believes there are many benefits to a centralised employee benefits programme

"In such circumstances, it's important to make clear that things can change in the longer term: rates in local markets can and do harden, plus the local entity might face some big claims," he says. "A captive can take a long-term view, as opposed to just hiking rates up in response. Alongside this, of course, with a captive you're afforded much more flexibility of product design and terms and conditions than you ever would with a local insurer."

Paul Devitt, senior director, Willis Towers Watson, says the key phrase around captive employee benefit programmes is sustainability: "We are in a world where there is increased scrutiny on various aspects of employee benefits: design, financing, member experience, admin and operations, and informed decision making. Operating a captive employee benefit programme can enhance a company's management across all dimensions of benefits management; leading to a better understanding of the demands of employees, and a company's ability to sustain coverages over the long term."

The key is to have an effective, well-considered business case that contemplates both the advantages of operating a captive employee benefit programme (both financial and non-financial) but also the change involved and concessions that need to be debated, says Mr Devitt. "With a clearly articulated strategy, sponsored by a diverse corporate stakeholding, any resistance should be limited to practical, local considerations, which should be weighed up when quantifying the benefits of participating in a captive programme," he adds.

REAL BENEFITS

For Mr Almeida, there are vastly different strategies implemented by captives, ranging from large upfront discounts for moving business into it, to others that may have a more conservative approach to renewal increases, pre-agreed rating actions or central funds to initiate health and wellness programmes in specific markets.

"This is where we have seen increased interest from the local offices of multinationals in joining employee benefit captive programmes," he notes. "A captive is a highly suitable vehicle to fund health and wellness initiatives. With the improved access to medical claims data and centrally managed resources like telemedicine, wellness campaigns and much more, the local offices can see the real benefits of working with a captive."

Owen Williams, captive centre of excellence manager, AXA XL, says that when the risk management and HR departments are joined up, he doesn't see too much resistance to creating a centralised employee benefits programme. "However, this isn't always the case, and sometimes we see reluctance from local managers in giving up their control over employee benefits, arguing it affects their ability to hire and retain top talent. However, there are many benefits of a centralised programme, such as greater control over premium rates and terms and conditions, reduced costs, and cash flow advantages, among others. Captives

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are particularly effective vehicles for centralised employee benefits programmes, as losses tend to be high frequency and low severity, making them easier to forecast than property and casualty losses, for example," he explains.

As a first step, he says it is essential to ensure that the risk management and HR departments are joined up on this and working together to achieve a common goal. "Since many companies buy employee benefits policies in the individual territories in which they have operations, these must all be brought together into a global programme. To try and do this without first establishing a dialogue between these two departments, particularly in larger organisations, will make any attempt to establish a centralised employee benefits programme incredibly difficult," says Mr Williams.

RISK MANAGEMENT AND HR

It is clear that for a captive to work successfully in the employee benefits arena, it requires risk management and HR to work together. This has traditionally not been easy, as there have been concerns over where the responsibility lies. Roland de Crombrugghe, general manager, Global Benefits Network, AIG, points out that traditionally HR has managed the employee benefits programme in its entirety, including the risk associated to employee benefits, while companies that have developed risk management skills in-house split the responsibilities.

"Decisions about the actual benefits are HR decisions, whereas decisions about the most efficient way to manage the risks lie with risk management," he says. "Companies succeed in optimal and smooth benefit plan implementation when the responsibilities are well understood and the interaction between both teams is harmonised. Resistance from local managers can be a factor but it tends to disappear when it is clear that it is HR's responsibility to determine what the benefits need to be and it is the responsibility of risk management to determine the most efficient way to manage the risk."

Mr Almeida says that to ensure a successful employee benefits captive programme, agreement is needed from numerous people and departments, especially HR, insurance/risk and procurement at the global, regional and local level. "Creating and implementing a strong global employee benefits strategy requires a concerted effort between risk, benefit and procurement divisions, with a strong focus on 'selling' the benefits that the captive provides for the local offices," he says.

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COOPERATION

Mr Ross agrees that cooperation is essential to the success of a captive. He says that one of the main hurdles to overcome is in ensuring that the HR manager and the risk manager talk, because without that conversation, neither party will understand the shared advantages of putting in place a captive arrangement.

He explains that under a typical captive scenario, HR is in control of the level and type of benefits required in order to remain an attractive employer in their local markets. They are also the people who will understand whether benefits are in line with company policy, while the captive and risk manager (with the advice of the network) set the price on a local basis.

"For both parties, the beauty of a captive is that it gives you control over costs, product design, terms and conditions (local insurers are typically wary of allowing customised coverage). Typical exclusions can be removed. And, what's more, if there are any 'grey area' claims locally, the captive can simply step in and pay them. We've also seen that captives can allow for an extra layer of benefits (from the local insurer) to be standardised and provided on a global level. A local insurer alone would have said no to this idea, but because the risk is ceded to the captive they are more likely to say yes," he says.

And he adds: "It's important to bear in mind – and maybe an additional selling point to the risk manager and local HR – that even where there are soft markets locally, insurers are still writing business to make a profit. With a captive, this profit remains with the corporate company. Meanwhile, we're increasingly seeing that even in soft markets, some captives can give lower premiums on a local level but, in return, you would have to implement wellness initiatives in order to help reduce and prevent claims. Of course, this also brings a win-win to all."