

Employee benefits have become an increasingly hot topic for corporate risk and insurance managers in recent times. This is because companies involved in the European and international economy are fast waking up to the fact that real and lasting success can only be achieved by attracting and retaining the best talent. To do this, they need to offer the best and most flexible working package possible. But this battle for talent comes at a cost, and businesses are realising that the insured element of this cost is best managed by a professional risk and insurance manager on a global basis, ideally via a captive. To explore the opportunities and challenges presented by this important and fast-evolving area for our readers, *Commercial Risk Europe* gathered a group of leading risk and insurance managers for a roundtable sponsored by MAXIS GBN. **Adrian Ladbury** reports

Risk managers rising to the challenge of employee benefits

◇ EMPLOYEE BENEFITS

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ADRIAN LADBURY [AL]: Employee benefits (EB) have always been an important subject for companies and their employees in Europe. Why has it become more important for risk and insurance managers in recent times?

ADRI VAN DER WAART [AVW]: Historically, this has been a separate issue just for human resources (HR), and insurance and risk management professionals have not been involved. Risk management is now developing a much broader remit generally and so, naturally, risk and insurance managers are being asked to help with employee benefits, if only to help with insurance matters.

PETER DEN DEKKER [PDD]: The insurance department has to sign off on all the insured benefits, so it is a natural fit. Our HR/employee benefits department has been working with risk and insurance management for more than ten years now. Our reinsurance programme that we have in place for our property and casualty risks is a natural home for these risks and so I do not see any barrier. Insurance management can help with the design of benefits with the local HR managers. I discuss the programmes with brokers and insurers. The relationship is a natural fit.

ALEXANDER MAHNKE [AM]: We started looking a bit deeper into employee benefits when we started reinsuring our health insurance risks and some of the local insurances into our captive seven or eight years ago. We still haven't finished everything because of a variety of internal reasons. Traditionally, employee benefits are done by HR and I had to sign off on them, but I didn't see everything that was going on locally. If you look at it objectively, it's very similar to how we started international corporate insurance some 30 to 40 years ago. From the financial side, there are some very obvious things to do. But it's all about internal networking, defining the internal and external stakeholders, and finding the most efficient

THE PARTICIPANTS



◆ **Adri van der Waart**, president of Dutch risk management association Narim and corporate insurance manager at Arcadis



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◆ **Alexander Mahnke**, president of German risk management association GVNW and CEO of insurance at Siemens Financial Services



◆ **Sabrina Hartusch**, president of Swiss risk management association Sirm and global head of insurance at Triumph



◆ **Dogu Ozden**, president of Turkish risk management association Erma and director of financial planning and controlling at TofaD, the Turkish automaker jointly owned by Fiat Chrysler and Koç Holding



◆ **Kelvin Wu**, treasurer and member of EXCO at the pan-asian risk and insurance management association Parima and group assistant general manager, risk management and insurance at International SOS



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solution. This is not always easy because there are various interested parties locally. It is very important to look into this, especially when you consider the usually large spend involved. There's a lot of room for financial inefficiency.

SABRINA HARTUSCH [SH]: In Switzerland, all the insurances goes through the insurance and risk manager. But we still see insurance and risk managers in separate roles, not combined. This is typically how companies have evolved. I manage all the insurances and take an holistic approach to risk, which includes HR. It's about people, employees and not just about money. Also, remember that people are directly involved in all the other core risks – such as supply chain, IT and cyber risk – which all need to be insured, so it is all linked. HR-related risks are just one of the risk sets that need to be insured, but they are all linked by people. Apart from insurance, it is also about risk management and avoidance. Decisions are taken locally in countries where the corporate would not have taken them and this has to be taken into account, as Alexander explained.

DOGU OZDEN [DO]: Another reason why risk and insurance management has become more involved with employee benefits is that the market is rapidly changing along with the change in the global economy. For the last 200 years, following the industrial revolution, we have been used to the classical structure of blue-collar workers and white-collar workers, all in full-time employment working in offices and factories. This is changing. In the future, there will be a big shift from full-time employment to part-time. This means that our approach to employee benefits is changing. There is also a demographic shift. There will be many more older working people, because of longer life expectancy. Traditional industries such as motor are very good at the classical ideologies, but I believe they will be outdated in the next ten to 20 years.

[AL]: On this basis, is it therefore very important for companies to rapidly adapt to the new models and way people want to work, if they want to attract and retain skilled workers?

[DO]: Yes. But insuring this flexible workforce will be much riskier. The benefits

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methodology will become much more important. The younger generation will spend less time in offices – they will be much more independent. The work-life balance will be very important. People want to work less hours, which can be costly for employers. Pension funds present a huge problem for many companies today. Perhaps this needs to be left up to the individual more. Providing fitness centres in the office and the like would be less costly.

KELVIN WU [KW]: There is a huge amount of spend on EB and historically a lack of alignment between HR people and the risk team. So you have to make them work together. You are comfortable with a soft property and casualty market, but you can't expect your medical inflation to be double digit. A good result is thought to be a 5% to 9% annual increase, which I found to be strange. Then we started looking at reinsuring and using the captive. We did this four years ago. I think we are the only Asian-domiciled captive with an EB scheme included.

When we started doing it, the HR teams in Asia were surprised we were able to maintain the level of risk on flat rate as we have done for the last four years. We have seen interest pick up with the risk managers in Asia and it seems there is an end to double-digit medical inflation. All companies are becoming more cost-conscious. Clients are more and more concerned about prevention than the actual occurrence of the incident itself, which is why we have experienced a rise in demand for our services. If you look at both those things, then a captive allows us to have a bit more agility and control. The technical solution is not really that difficult. It is about the added value that you can bring.

[AL]: Including benefits within the global programme and ideally via the captive makes a lot of sense theoretically. But do you not experience a lot of complexity when dealing with national regulations and state/private medical systems, perhaps even more so than with traditional P&C lines?

[AVW]: It is possible and we are doing it. The discussions we have now with HR and benefits people are positive and we are going to do a lot in China, Turkey and other territories. But there are national variations and barriers. We are not doing it in Germany or the Netherlands because these countries have very different requirements for medical insurance. Then there are big cultural differences that can provide challenges. In Brazil, for example, you are expected not to just insure next of kin, but grandfathers as well. It is very difficult to make a mandatory arrangement for all territories with medical risks. The rest is more risk based; accident, life and long-term disability – those things go well. We now have a lot of countries included within our programmes and that is positive. But there is still a way to go. The number of employees covered on a global basis may be 20% or 30%.

[AL]: Why such a relatively low proportion?

[AVW]: Some of the countries have different legislation and it is difficult to always bring



these risks efficiently into the programme. In the Netherlands we have state insurance for medical, it's voluntary for people to join and it's very difficult to influence that part. It's very diverse. We can't force everyone to join our global programme in terms of EB. We try and persuade them and we do have a lot of power, but for many countries it's a struggle.

[PDD]: Differing legislation around the world is a challenge for risk and insurance managers working at multinationals. There is a need for choice in the Netherlands, France or Germany and other countries, but this is totally different for Asia or South America. The solution is different. You can't always have a global solution for each project and/or solve issues on a global basis. Travel insurance can be arranged on a global scale, but when you come onto pensions, it is different and you cannot always bring your global solution. But you can offer very useful help and advice. You have to ask: what are your needs and what can I do for you and does this fit in the overall company strategy? The global markets are all different and can be very complex in regulatory areas. Here we can assist and support HR.

[AM]: You certainly can help to efficiently manage the finances. If you can run it through a global programme then you have the experience to efficiently manage those programmes. You don't always go for the cheapest price. You look at the overall scheme, you invest in risk management measures and you try to keep the spend at a reasonable level over the long term. You can do it with all the lines as long as it's an insurable risk. The reason we believe in convincing people rather than forcing them is because we are a company, like everyone here, with a lot of intelligent people. For us the most important thing is to get the buy-in of the local financial people. This is because traditionally, on a corporate level, it is very

easy to talk about the most efficient way to manage the programme with central HR, governance and legal, and risk financing. But then you go on local turf and the local CFO will most usually not feel responsible for that. It's about making them feel responsible and making sure that they talk to HR and that they make it a local financial governance matter. If you look at things that way, you can try to convince people to do the right thing for the company.

[KW]: Benefits are linked to legislation and each country has different mandatory rules so this has to be considered. We have a very large number of mobile employees and international assignments so we have to take care of the dependents and spouses, up to 2,000 people. We wanted a consistent level of benefits regardless of where we send them, so we use the captive as a way to deliver consistency when they are posted to different countries. This is a good way to win the support of HR. The captive can be used to soften some of the potential problems.

[AL]: Is the captive critical for this?

[SH]: We do not have a captive and can still offer employee benefits. So, it's not critical, but I can see the benefits.

[AM]: I think the argument is the other way around. If you have a captive, it makes a lot of sense to look into the potential for incorporating benefits. But I would not advise anyone to create a captive only for that. From a portfolio perspective, it makes a lot of sense. We have P&C risks in our captive and also like to have EB and pensions to a certain degree. So, we have a good risk spread that makes sense because you will not burn capital on one large claim.

[SH]: I feel that I can be much more creative and smarter around P&C insurance. With



personnel insurance, I find myself much more regulated. The cost has increased because medical insurance has been granted as a benefit. If it becomes too expensive maybe you have to close that market because the head count becomes too expensive. It's a very critical topic. You need to focus on claims prevention to limit the upfront costs. Often the costs contained within employee contracts are not properly analysed, and when you try to remove a benefit because it's becoming too expensive, offering a salary increase instead, it can be difficult.

KARIN SIEBERTZ-LHORTE [KSL]: In South America, we are now trying to make the employee participate more and it works pretty well. They like to have flexible benefits. We have a basic help programme and then we give the employee the option to buy up with their salary. If they want to include their spouses and their children and all their family it can be done. That is how we try to help our clients reduce costs. People are asking for these flexible benefits. It's not so easy in Brazil because it is highly regulated. But we are implementing this in Colombia. Argentina is a bit more difficult, but in Mexico it has been up and running for the last couple of years. So there are options.

[AM]: There are a lot of decisions that need to be made locally. I would never argue against funding health insurance for spouses and kids, but the only thing I would argue is that I want full transparency. I want to understand why it is being done and then I want to manage the financial costs. I want to ensure that the health scheme has been chosen for the right reasons. I also want to know whether you carry out preventative risk management, because that's what we are there for. A number of HR schemes fall down for a number of reasons. A lot of decisions are still made locally and this needs to be transparent.

[AL]: Is there adequate and comparable data on claims to help make these decisions?

[KSL]: It is improving. We have developed our medical data and this information is available through our network of local centres. This data is anonymised and we share that with our global clients. It helps you see what is behind the claims and identify the difference between low risk and high risk. This information helps you to see what the issue in China is, or in the Middle East or any other country or region that you are located in. Actually, one of the main reasons why our clients come to us is because we have a dashboard through which you can see the core level of claims and expense in every country. We have managed to work with all the insurers to obtain the information and we have it in the system.

[AL]: What do you think is the one thing that employees are going to want in future from their benefits? There is currently a big battle for talent in the corporate world. How do you attract and retain the best talent?

[AM]: 'Pick and mix'-style, flexible benefits.

[SH]: When we say flexible benefits, does it just mean benefits or do we also start being flexible around the salary, perhaps a bit more pension?

[KSL]: Flexibility is key. I recently worked with a client in Mexico City, where there is a huge space problem – there is no parking space. In this city, company cars are not so attractive. So, we partnered with Uber and gave them Uber credits instead. Other people might say they want to work from home, so that can be part of the mix.

[AL]: Is there a cyber element to this risk?

[KW]: Yes, because personal data should not be known by everyone. That is a challenge. All the information may be stored in the cloud somewhere and you might be hacked. This is a risk, but it's not critical issue. It's more that employees do not want to have all their personal documents available at a corporate level, about potential illness or whatever.

[AVW]: It does raise the question of privacy and security. In Europe and the US, there are strict legislations and restrictions. This provides a blockage for big data collection. It takes us years to negotiate security clauses with global HR. For benefit insurers, it is a nightmare. We have all the data available, but it is a seriously sensitive issue.

MARKUS LEUTENEGGER [ML]: As risk managers, how far are you involved with flexi benefits?

[PDD]: In my company, we are seeing a change from fixed EB to more flexi benefits. You can't change it overnight – development will take some years. At a corporate level, you see us working in several countries with several acquisitions all with different pension funds and employee benefit programmes, so it can be difficult to integrate everyone. So you can't change to a full flexi system overnight. That's the most difficult challenge for HR. For the fixed insurance solutions, we can help. But for the more strategic HR solutions, it is up to them.

[AL]: What do you, as risk managers, want from the market to help you obtain a better result from your EB?

[AVW]: Flexibility. Questions change each day from my company and, working on a global basis, you need different solutions. You need a flexible approach.

[KW]: Consistency. We have talked a lot about moving from standard to flexi benefits. The administration of this is important – you need a good solution to do all that. I don't know if insurers and brokers are expected to provide that solution but if we want to be better at managing EB data, we need to analyse it properly. Also, we talked a lot about the financing and the structure but we don't talk enough about how to change the behaviour of employees. It's one thing to give the option of flexible benefits, but what sort of behaviour are you trying to drive? It's not always about financial stuff, because we can always find a solution to finance it. It is more about how you drive the behaviour and manage the risk at source.

[DO]: Much more personalised solutions will be better for employees and also employers. For example, maybe a special product for female employees, or for sports. We need much more tailor-made solutions that can be linked with insurance policies.

[AM]: We get everything we need. But the one thing I would mention is that people need to listen to our needs and think like us. You also need to work hard to change attitudes within your company. This is about communication and understanding what is good for employees and the company.