



**POINT**  
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**COUNTERPOINT**  
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## Insurance is Increasingly Global All Insurance is Local

**Master insurance policies are preferred because risk managers should be nothing, if not control freaks.**

The greatest folly in arguing for a local coverage approach to your insurance program is this: No insurer, not even at its most hubristic, allows itself to be deluded into believing that the financial service it provides dictates the machinations of the world's economy.

Insurers are great holders of capital for that very reason; that is how they are rewarded for their relative humility. Don't get me wrong, those vast stores of capital have their influence as buyers of bonds and equities.

But in the operations of the business of providing coverage, rather than dictate how the world trades and consumes, insurers merely follow the primary economic movers and place their bets accordingly. And so what is happening in business? It is becoming more global, is it not, and less local.

Why do you think, those of you here in the United States, that you are paying more for your steak and potato now than you were last year? It is because your grocery budget is being affected by international forces and powers of supply and demand.

That is why the European Union, which far outclasses the United States in the area of risk management, has for decades been establishing a system of international insurance regulation. These regulations allow insurers to carry on business within the EU, subject to national regulation. And why do the insurers like this? They like it because it reduces their costs.

And why would an insured benefit from a multinational program? For the same reason, it would reduce their costs.

No manager who can help it wants to take on redundant costs. But that's what risk managers of multinationals sign on for in managing insurance programs in the United States, which boasts 50 different regulatory regimes.

State-based regulators can huff and puff all they want, but if it were to come to pass that the leaders of the Federal Insurance Office rub elbows long enough with European regulators they will become enlightened and want to change tack. Oh, and what a fight it will be and how much noise it will make?

So, who does a more comprehensive approach hurt and who does it help in the near and middle term. Of course a move toward master, global insurance programs will benefit the large global insurers who have networks in many, many countries; this is for the admitted markets only of course.

But for those managing insurance programs, master insurance policies that cover as much of a company's global reach and exposure are preferred. That is because risk managers should be nothing, if not control freaks. They want their hands on every risk management string because they need standardized cost evaluation and standardized loss reporting.

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**Buyers seeking an admitted multinational insurance program ought to wrap themselves in a local blanket.**

Corporate insurance buyers representing *Fortune* 500 companies with foreign subsidiaries looking to insure the subsidiaries, do yourselves and your employers a favor. Get yourselves insured locally.

I'm no insurance expert, so why even give me the time of day? Because I'm familiar with living abroad.

As the son of an expatriate foreign correspondent, as a former expatriate myself, half Swiss with half my family in Switzerland, an extended family in France and more than 18 years of real-world, on-the-ground experience living overseas, I will tell you that there's no substitute for following the local custom.

And local custom will always trump a master policy on a PDF file or Excel spreadsheet cooked up by underwriters toiling behind some U.S.-based insurance carrier firewall.

I know, I know, you can argue efficient risk transfer through a controlled master policy and all that. Fair enough.

Set aside your insurance models for a minute, though, and think not about how the world is supposed to work but how it really works, and how it works from the perspective of "boots on the ground."

Any soldier will tell you that the strategies they learned at West Point and what they encounter on the ground are often worlds a part – so far apart that it is sometimes even a matter of life and death.

War similes aside, it's (thankfully) not quite as dramatic in insurance of course, but even in the world of risk coverage the landscape is changing rapidly.

Historically, master policies have included the parent and subsidiaries and affiliates as named insureds. Buyers would pay one premium to cover global exposures for the insured group and the master policy would cover any claims not covered by a local policy.

New regulations and tax scrutiny, however, are gradually poking holes in the master "umbrella" plans. In Argentina, Mexico, the United Kingdom and continental Europe, master policy assumptions regarding directors' and officers' (D&O), environmental coverage, and fiduciary liability are coming under challenge, not least in part because of emboldened plaintiffs' lawyers.

Absent any global regulation of insurance and the consistent application of laws, buyers are better off making sure they first have a local policy, then a master policy.

U.S.-based carriers may want to sell you and your subsidiaries a master policy emanating out of the United States, but it's the buyer's job to make sure his or her employer is insured for local risks in a faraway land, and that claims are paid.

Remember, all is insurance is local. No one knows that or should know that more than risk managers.

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All insurance may be local, but risk knows no international borders. Global insurance coverage depends upon balance and flexibility. Today, a comprehensive global insurance strategy usually means tactics will vary from situation to situation and from place to place.

Risk managers might hope to cover all the possible outcomes in a global insurance program, but risk just doesn't work that way. Yet a country-by-country fragmented strategy can quickly find itself in conflict with international regulatory issues and events that ignore local borders. A seemingly simple disruption in one location could threaten the worldwide operations.

This isn't your typical, simple placement that can follow some kind of standard format. No global policy will be effective if it ignores local laws, customs and practices.

For example, paying a relatively simple claim often can result in significant, unforeseen expenses from the local and international tax consequences. Yet it is also reasonable to expect that companies need to develop and implement global policies and practices, especially as the insurance regulatory process becomes more and more global.

The answer is to bring together the kind of expertise that can resolve these conflicts in a way that responds to both evolving international conditions and local realities. That expertise can come from local and global broker placement professionals and insurance carriers that understand local markets and the international factors that continue to change the insurance and risk environment.

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Brian McInerney, President & Chief Executive Officer, Glacier Water Services, Inc.

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### Zurich HelpPoint Perspective



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