

Crossing the Cultural Divide

Constant communication is key to effectively addressing global exposures and complying with local laws and regulations

The rapid growth of globalization and proliferation of multinational companies is creating increasing complexities for risk managers and companies that insure such multinationals. The most important aspect of successful relationships between insurance companies, brokers and insureds always is ongoing communication, with a deep understanding of the client's business, its near- and long-term plans, and its corporate culture.

Effective communication becomes even more essential when businesses expand and cross country, language and multicultural boundaries. Corporations simply cannot afford to be unfamiliar with and receive penalties for breaching local laws and regulations. The cost to reputation can be even more damaging than financial cost. Clients rely on their insurers to not only cost-effectively cover their global exposures, preferably in a centrally controlled structure, but also to assure that they are in compliance with those laws and regulations. *Strategic Risk* magazine's recent survey reported 67% of corporate risk managers saw "compliance with a wide variety of regimes as a growing risk of globalization." Issuing local policies wherever clients have interests simply is not sufficient because of the potential for coverage gaps or overlaps; it also does not allow for central control.

HOW XL INSURANCE DEFINES A GLOBAL PROGRAM

A global program is an insurance program structure involving a Master Policy in one country, e.g., USA, and local policies issued in another country or countries,

e.g., Brazil, Chile. Lines of business covered are property (including energy and construction), casualty, marine, fine art and specie business. The program may involve co-insurance, reinsurance to third-party reinsurers and/or master client's captive.

When XL Insurance has reverse-flow business, there is a challenge for foreign risk managers to understand some of the U.S. coverages such as workers' compensation and auto liability, that are not necessarily part of a global casualty program.

Requisites of an effective global insurance program are: product and underwriting expertise; global coverage through owned offices and fronting (domestically licensed) partners, Freedom of Service capabilities in Europe, a worldwide IT system, excellent premium flow, policy issuance and claims service; global tax and regulatory compliance, and a client-centralized approach to risk management. A typical buyer of a global program is a multinational corporation with exposures in more than one country and with central risk management decision making.

To provide consistency in coverage around the world, global program insurers provide umbrella coverage, known as "difference

in conditions" (DIC) and "difference in limits" (DIL) under a master policy on a licensed, permissible unlicensed or financial interest basis to provide seamless and comprehensive global cover. As Jonathan Post, XL Insurance's general counsel for global programs — Europe/RoW, wrote in *FDE* magazine,

"This insures the differences (if any) in terms and limits between the local and master policies. It is a powerful tool and fundamental to the operation of global programmes because subsidiaries have local coverage in familiar terms and languages that they can show to their regulators or contractual partners if they are required to do so."

It is not always easy for foreign risk managers to understand the ins and outs of the highly regulated U.S. insurance market. When XL Insurance has reverse-flow business, i.e., a controlled program not originating in the United States but from companies with U.S. subsidiaries, there is a challenge for foreign risk managers to understand some of the U.S. coverages such as workers' compensation and auto liability, that are not necessarily part of a global casualty program.

XL WORLDPASS MEETS THE GLOBAL CHALLENGE

XL WorldPass is the company's "Global Program" solution with enhanced compliance functionalities. Within its framework, XL Insurance maintains a network of owned entities, carefully selected fronting partner companies in more than 100 countries so we can issue local policies



and provide services, closely managed by XL's regional hubs in Sao Paulo, Hong Kong and Vienna. Underwriting becomes easier when dealing with our regional hubs that work with our fronting partners, assuring all parts of a global program adhere to XL standards. *XL EuroPass* "passports" across the 30 countries of the European Economic Area by virtue of the EU's freedom of services principle. This means that XL can cover the European risks of U.S. multinationals by either issuing separate policies in various territories or cover exposures in up to 30 European countries by issuing one policy. *XL EuroPass* can be fully integrated in the global program. We have instituted one global IT platform which secures high-quality, efficient data tracking and reporting. We have created an on-line country guide that allows us to track and update information on entities, markets, taxes, licensing compliances, and lines of business in companies to better know where we can or cannot provide DIC and DIL cover under the master policy. The licensing law data base, for example, makes us

confident in our knowledge of where XL can legally provide unlicensed cover.

When it is not permissible to cover a subsidiary under the master contract, XL Insurance offers a "financial interest cover" which insures the parent is consistent with its financial stake in the subsidiary, i.e., all the parent's economic, financial and strategic interests in the continued operation and good standing of the subsidiary. In practice, XL Insurance calculates any loss to the parent's financial interest in the same way it would do so if the subsidiary in question was insured under the master policy. This financial interest coverage is the final piece in the puzzle that, together with fully-licensed and permissible unlicensed solutions, allows XL to structure a compliant global program that provides consistent cover and central control worldwide.

25 YEARS OF EXPERIENCE IN WRITING GLOBAL PROGRAMS

A key to XL's success in this business is recognizing that international underwriters look at the business differently than domestic underwriters. A lot of knowledge and work come into play, and we manage that by having program underwriters who are responsible for the structuring and execution of a global program and who are ultimately responsible for ensuring that all the money movement and the service aspects are addressed. They deal with local regulations and legislations to make sure that the correct instructions are given and everything is working the way clients, brokers and XL expect it to work. Deal administrators and policy administrators are the systems and roll out specialists who liaise with the underwriters to ensure that everything is handled at the highest service level. It is this expertise, our commitment to every aspect of our client's business, and above all, to successful and comprehensive, integrated communications that differentiate XL Insurance in the global marketplace.

