The world of employee benefits is becoming both increasingly important and complex in the global economy, and risk managers find themselves more and more involved. To investigate these potentially significant opportunities and challenges, *Commercial Risk Europe* teamed up with MAXIS GBN, the global employee benefits network backed by two of the world's largest insurance providers – MetLife and AXA, to host a roundtable discussion in London. The following is a summary of a stimulating discussion that builds on CRE's recent expansion into this increasingly important area for our readership

Risk managers taking centre stage with employee benefits

Shift of benefits from local HR to central risk management

◇ ROUNDTABLE

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European risk and insurance managers have traditionally focused on the management and transfer of property and liability risks. In recent times, however, they have found themselves increasingly involved in the management and transfer of employee benefits risks, which were traditionally managed by the HR department on a local basis.

This has occurred as more European businesses expand into new markets in and outside of Europe and, as a result, realise that risk and insurance management needs to be organised on a more strategic basis.

These international programmes are preferably organised and controlled from the centre to achieve consistency and cost efficiencies, while at the same time ensuring compliance with international and local laws.

Another interesting and natural development has been the rise in the use of captive insurance companies as a core management tool to achieve benefits for both P&C and, increasingly, employee benefits risks.

This all seems very sensible and logical but, as with all such change, it comes with challenges.

Local managers are generally not happy to give up control of anything previously within their remit. They may have close and long-term relationships with local brokers and insurers, and they may also suspect that they will be paying for claims of other parts of the group through the centralised system.

There will also naturally be a concern that those at the centre will not really understand the local cultural, regulatory and legal approach to the management and construction of benefits.

The bottom line appears to be that if employee benefits are to be successfully integrated within the wider group insurance programme, ideally via the captive, then the risk and insurance management team will need to clearly identify and explain the benefits to local and central management.

It is, as ever, about effective communication, partnership and the delivery of clear and concise analysis.

Paul Devitt, senior director at Willis Towers Watson, has worked in this sector for some time. He has seen a clear trend away from purely local management and delivery of benefits, towards a more efficient centrally managed process. But he also stressed that this very much remains a "work in progress".

LOCAL BENEFITS FOR LOCAL MANAGERS

"If you go back a number of years, benefits were traditionally managed on a purely local basis and HR managers bought what was available on a local basis, subject to what was available on a local product basis and regulatory requirements. It was managed by local HR managers," explained Mr Devitt.

"More recently, the employee benefits profession has evolved, partly because of the fact that so many companies now have global operations. Companies realised that they needed a more global strategic approach, asking themselves what they were trying to achieve, what were the advantages for the employees and the company itself, and what were the potential cost savings of managing things from headquarters," he added.

"But despite this positive trend, you do find that many plans are still managed on a purely local basis. When we first engage with multinationals on what they are spending on employee benefits worldwide, often they do not actually know!" continued Mr Devitt.

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Nicola Fordham, [*pictured, right*] director of underwriting at MAXIS GBN, the global benefits network of nearly 140 insurance companies in 115 markets founded by AXA and MetLife, added that the battle for talent has intensified in recent times and is a factor in a changing attitude and approach to benefits management.

"This market has changed over the last 20 years because there is so much more focus on retention of good staff. I was in a presentation yesterday and it was all about how the company could achieve a good return on the investment they had made in their staff, using benefits as part of that package and allowing their staff to bring their 'whole of self' to work. This is really quite a shift, in Europe at least," she said.

Sean Sullivan, manager of group insurance at Thomas Cook, the UK-based travel agency that employs about 19,000 people, was well qualified to take part in this discussion. This is because he has been building a more strategic and centralised approach to benefits management at his company for the last four years.

"Our experience concurs with what Paul and Nicola just said. We are on a journey towards that more strategic approach to employee benefits management. We started a process four years ago after we realised that we were spending considerably more on benefits across Europe than we needed, because of the way it was locally organised. There was no real central control or oversight," explained Mr Sullivan.

"We haven't gone down the captive route yet. By setting up the pools and by appointing one global broker, we hope that this will provide us with the potential for significant cost savings," commented Mr Sullivan.

He noted that in the past his company had one broker in Scandinavia, a different broker in the UK and France, and other local HR departments dealing directly with local insurers.

Local resistance to change from other departments keen to defend their patch can be strong. "The problem is often local self-interest, budgeting and local procurement processes. Local HR people are not trained to procure insurance in the same way as risk professionals," pointed out Mr Devitt.

Mr Sullivan noted that HR and risk managers tend to look at matters from different perspectives. He explained that when Thomas Cook closed its defined benefit scheme, a substantial amount of life assurance was given to compensate those coming out and moving into the defined contribution scheme.

"As the premium cost was cheap at the time and claims activity had been low, the decision was made to provide the increased benefit to all individuals. Consideration was not given to a deterioration in the claims position – which occurred due to a number of large claims in a business area where income protection is in place until 65 – that resulted in significant increases in premium cost to the business. If a more risk-based approach had been used, rather than HR implementing the change as a good news story for all, the offering to our employee base may have been different," he explained.

PROCUREMENT CHALLENGE

Aaron Brown, senior multinational account executive at MAXIS GBN, said that another challenge when centralising employee benefits risk is the potential involvement of procurement.

"One of the biggest concerns is to try and ensure a balance and make sure that risk and finance drives the decision-making. There is a natural tendency for procurement to take an increased role and this can lead to the wrong decisions. The largest companies tend to have specialist teams dealing with international benefits but it can be challenging," said Mr Brown.

Valerie Alexander, head of corporate insurance at Deutsche Bank in the UK, pointed out, however, that central procurement can be a useful ally. They can support the effort to sell the bigger-picture cost savings that can be made through a central approach to benefits management, she said.

"It can be hard for risk managers to break down barriers locally because you are centrally based. Some companies simply mandate it and clearly it is much easier in these cases. Others do not and this is where the challenges lie. Procurement can back you up in such cases," commented Ms Alexander.

Mr Sullivan said risk managers need to be prepared to play a central and support role to make this work properly. "Our role is as a service provider to the business, which allows the business to make informed decisions. This is done by helping to identify the opportunities and challenges, and presenting the options that HR and the business as a whole can use to determine on what basis to provide benefits to employees," he explained.

Mr Devitt stressed the importance of gathering all interested parties around a table to make sure a proper discussion takes place and everyone is agreed on what could and should be achieved.

"I am a big advocate, when you talk to companies, of prequalification. That is getting HR, procurement, risk and treasury, all the stakeholders, into a room to discuss the options and strategy. This can lead to quite a momentous realisation that priorities are not always aligned. All stakeholders need to be shown what could be achieved, the opportunity costs that some would not necessarily normally see," he said.

Top-down challenges

It seems generally accepted by risk and insurance managers that it makes sense to bring employee benefits into the group programme along with P&C risks. But the roundtable panellists agreed that centralisation, and a top-down approach, bring some big challenges that should not be underestimated.

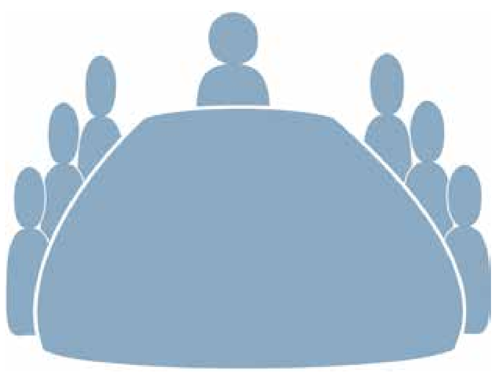
Risk managers are frustrated by the complexity of dealing with local, and apparently ever-changing, insurance rules when attempting to consistently manage and transfer their international exposures.

Paul Devitt, [*pictured, right*] senior director at Willis Towers Watson, explained: "It does make sense to incorporate employee benefits into the master programme. This is usually done using a top-down approach with P&C risks and it works. But for employee benefits this is more of a challenge, because by the time you consider all the elements – including local labour law, regulation and administration, local rules on claims settlement and the like – it can be very complicated and only really manageable on a bottom-up basis."

Matthew Latham, head of captive programmes at AXA XL, agreed that reality is not always as simple as theory: "I would agree that it is not always easy to take a centrally controlled approach with employee benefits. The closest analogy within P&C is workers' compensation or employers' liability, as this is often bought separately because of distinct local requirements," he said.

Sean Sullivan, manager of group insurance at Thomas Cook, pointed to the cultural and practical difficulties. "if you choose to go down the route of using a global master policy for employee benefits, this will always be considered best of class. But it has to be recognised that this is a different business, if only because you cannot make people give up their benefits. So this takes a very different approach," he said.

Valerie Alexander, head of corporate insurance at Deutsche Bank in the UK, pointed out that the way a business is run can dictate how cover is bought. "How the programme is managed really depends upon the culture of the company. Some actually prefer local management. We, for example, do not use one broker for HR risks – these tend to be handled locally with an annual review from the centre," she added.



THE PARTICIPANTS

- **Paul Devitt, senior director at Willis Towers Watson**
- **Nicola Fordham, director of underwriting, MAXIS GBN**
- **Sean Sullivan, manager group insurance at Thomas Cook**
- **Aaron Brown, senior multinational account executive at MAXIS GBN**
- **Matthew Latham, head of captive programmes, AXA XL**
- **Valerie Alexander, head of corporate insurance at Deutsche Bank in the UK**
- **Lilia Gaouar, regional manager, western Europe at MAXIS Global Benefits Network**

Captives best route for employee benefits

◇ ROUNDTABLE

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PARTICIPANTS IN THE ROUNDTABLE hosted by *Commercial Risk Europe* and sponsored by MAXIS GBN, the global benefits network jointly owned by AXA and MetLife, agreed that captives are an excellent tool to more effectively and holistically manage employee benefits risk.

Valerie Alexander, head of corporate insurance at Deutsche Bank in the UK, said using a captive makes the job of coordinating and financing a global programme much easier.

"Using a captive means that you do not have to disrupt local arrangements. You do not have to force change from headquarters because you can just reinsure what is happening locally. It also helps the risk and insurance manager based at the centre get a better feel for what is being done on a local basis. The captive also helps with data analysis because it captures the data in a uniform basis and enables you to see what is driving the claims and costs across the organisation," she said.

"Using a captive is good way to increase transparency. Before we started using a captive, it was more difficult to analyse the risk and work out the spend. Using a captive focuses attention," added Ms Alexander.

Paul Devitt, senior director at Willis Towers Watson, is also a big supporter of captives. "The captive really helps with analysis and allows people to make informed decisions. It helps with the distribution of costs from centre to local operations. It also helps promote a proper conversation about mitigation strategy – what is available and what is transferrable, where to focus efforts," he said.

'GREATER FLEXIBILITY'

Nicola Fordham, director of underwriting at MAXIS GBN, added that the captive offers flexibility. "You have more control over the risk and greater flexibility. If something happens locally that is not quite in the programme but is quite fundamental to the local employee, you are able to be more flexible in your response via the captive and discuss options. This would not necessarily be the case with an insurer. For example, with cover above a free cover limit, the captive can enable you to reduce or remove the medical underwriting requirement and not subject your senior staff to intrusive medical questions," she said.

Mr Devitt agreed on the flexibility offered by captives when dealing with employee benefits programmes. "We recently worked with a multinational company that went around the world rewriting certain exclusions via the captive; it provides the ability to deliver what is really wanted. I have seen a number of companies using their captive to do similar things. The captive gives the risk manager the ability to do so much more. You need to get all the relevant stakeholders in a room to show what can be achieved," he said.

Ms Alexander agreed, giving an example of how a captive can promote a more structured approach to risk analysis, management and ultimately transfer. She also explained how they can be used to provide enhanced cover for employees that otherwise would not be available.

"You are able to use the captive to implement additional benefits such as gender realignment cover where legally permitted, which would not be available on a local standalone basis," she pointed out.

More broadly speaking, Ms Alexander added that

"Captives allow multinationals to have better control of their employee benefits insurance contracts worldwide, which includes their local pricing, appropriate level of benefit and awareness of their medical costs. This means local offices of multinationals have the potential to offer better coverage flexibility and potentially offer extended benefits to their employees than if they had to locally run their benefits programme. By including employee benefits risk in a captive, multinationals have centralised access to data associated with their benefits, giving them greater visibility and control to forecast various budgets related to EB contracts, as well as providing the opportunity to implement both global and local wellness strategies. Captives can make life easier for local HR managers and procurement too, as there is a natural governance and process."

LILIA GAOUAR
REGIONAL MANAGER – WESTERN EUROPE, AT MAXIS GLOBAL BENEFITS NETWORK

the captive is a natural home for medical and life benefits because they are generally more predictable than most P&C risks. "These are very predictable risks in reality. Even if there are shocks, the captive can be protected by a second layer via reinsurance," she said.

The panellists agreed that bringing benefits programmes into the captive and under central risk management control is not a simple. They said risk managers need to find the right partners within the organisation to achieve this goal.

"It needs to complement the local offering. You need to work with your network to find the right people to work with and gain buy-in across the group," said Ms Fordham.

Matthew Latham, head of captive programmes at AXA XL, added: "Sometimes companies self-insure their risks locally, so moving into a group-coordinated insurance programme can be something of a challenge. But once you show them the benefits, they generally get it. This could be a two-year job."

Sean Sullivan, manager group insurance at the travel company Thomas Cook, agreed that centrally managed insurance can be a tough sales job that requires patience. "People are naturally resistant to change and local leaders do not like to lose control. They ask: why should I give this away when this is a benefit I provide to employees?"

Willis's Mr Devitt pointed out that captives are ideal for employee benefits because of the longevity of the risks. "We often talk about business cycles. We may have three- to five-year plans, but employee benefits still tend to have a much longer time horizon. So, you need a longer-term strategy that needs to be flexible, able to react to M&A and the like. This is quite a complicated thing to do, so having a programme is important. This point is often not well communicated. People in the wider business generally do not know what a captive does and the benefits that it can bring. Communication is therefore very important," he said.

Mr Sullivan of Thomas Cook agreed. "I think it is very important to get the low-hanging fruit first and you will then find companies are willing to change as the message is spread by word of mouth. When this happens, change is more likely to happen," he said.

One of the biggest barriers when attempting to persuade managers of captive benefits is, of course, the cost of putting risk in such vehicles, especially when local cover is cheap.

To combat this, risk managers need to point out the wider arguments about diversification gains and the benefits of a more structured approach and longer-term deals for the group as a whole.

"There will be markets where in the shorter term, a soft local price will make it more difficult to convince local managers of the benefit of the captive. Over the longer term, there will be diversification benefits and the captive will protect the company from the worst of a hardening cycle, when prices can rocket. The benefits of multiyear deals need to be explained," commented Mr Devitt.

'SMOOTH THE PEAKS'

"Price is a very short-term view. The risk manager brings the relationship angle to the table and price will inevitably go through peaks and troughs through the cycle. One of the key benefits of the captive is that it can smooth the peaks and troughs and avoid sudden and unwelcome changes in premium costs. Demonstrate this to treasury and finance and they like it," added Mr Sullivan.

Ms Alexander said captives offer stable pricing and protection from market changes. This can help risk mangers convince others of their benefits. "Some inevitably ask whether they are subsidising the poorer loss records of others in the group, so you have to explain that this is not how it works," she said.

Mr Devitt said it is important to make sure that risk managers use the right vocabulary when explaining the benefits of captives. "You need full transparency," he said.

There are clearly some serious obstacles, both practical and cultural, to overcome when bringing employee benefits risks into the captive and under the control of the risk manager.

But there is no doubt that the risk management, broking and insurance community is working hard to sell the advantages of a more centralised, consistent and structured approach to insurance management, carried out across the whole organisation for both P&C and employee benefit risks.

The captive is obviously the central resource that will, over time, help convince the rest of the group that this makes sense.

Changing attitudes to work demand more flexible and carefully managed benefits

ROUNDTABLE

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The nature of employee benefits is rapidly evolving. This is occurring because work patterns are changing and the attitude of workers towards what they do for a living, as well as how and why, alters as the so-called millennial generation takes centre stage.

Deloitte has carried out an annual survey of some 10,000 millennials – those born between 1981 and 1996 – for the last six years. Earlier this year, the consulting firm summed up its latest findings as follows: "Millennials – and now generation Z [those born between 1995 and 2010] – are acutely attuned to business's wider role in society, and overwhelmingly feel that business success should be measured beyond financial performance. They believe business's priorities should be job creation, innovation, enhancing employees' lives and careers, and making a positive impact on society and the environment. However, when asked what their organisations focus on, they cited generating profit, driving efficiencies, and producing or selling goods and services – the three areas they felt should have the least focus. They recognise businesses must make a profit to achieve the priorities millennials desire, but believe businesses should set out to achieve a broader balance of objectives along with financial performance."

This new attitude to work is having an impact on the kinds of benefits that companies need to offer in order to attract and retain the best staff, according to participants in this roundtable discussion.

"You have to ask why employee benefits appear to be 20 years behind P&C risk and insurance management in the way they are organised. One thing that does have to be taken into account is the way that working life has changed over this period quite dramatically. The retirement date has moved out to 70 years old or even 75, away from the traditional model. This has obvious implications for the risk profile and the premium, and of course medical inflation has a big role to play too," pointed out Sean Sullivan, manager of group insurance at Thomas Cook.

"This new attitude to work is having an impact on the kinds of benefits that companies need to offer in order to attract and retain the best staff, according to participants in this roundtable discussion..."

Nicola Fordham, director of underwriting, MAXIS GBN, said: "The mindset of the millennial is very different to previous generations. There is no longer an expectation or desire for a job for life. They will expect to change jobs every two to three years. Companies need to recognise this and cope with the changing lifestyle of their staff, the needs of carers for children, the fact that life is not as standardised as it used to be. Gender is a good example. Companies may need to accommodate gender reassignment and some are doing so now formally through their benefits programmes."

Aaron Brown, senior multinational account executive at MAXIS GBN, agreed with his colleague: "This is one of the main challenges that I see when benefits are being designed and developed. These packages need to be adapted to meet the changing nature of society and lifestyle. Risk, finance, HR and procurement need to develop more partnerships to help develop programmes including elements such as transgender treatment, which is illegal in some countries. If a global strategy is followed, then you need to make sure that it can be implemented locally and where adjustments need to be made."

Valerie Alexander, head of corporate insurance at Deutsche Bank in the UK, said flexibility is now critical to match what younger employees seek from their careers. "This is where flexible benefits come in. Younger people do not want high life cover, they want more holiday. If you can react in a flexible way, then this can make it possible to offer older staff increased life and medical benefits. This is the benefit of having a larger pool. A company such as ours has 8,000 staff in the UK and 90,000 worldwide and if managed properly, this allows greater flexibility," she said.

Ms Alexander said the more flexible approach to employee benefits brings risks that need to be considered. "Staff need to be aware that it is up to them to go into the system and change the benefits online themselves, otherwise they risk their families receiving insufficient payments," she explained.

This again highlights the critical need for effective communication, added Mr Brown. "This is why you need strong communication from the centre outwards. Local offices will try to do one thing and it may conflict. This is also why you need global consultants and brokers to help deliver the programme on a worldwide basis," he said.