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Global Benefits Vision

Knowledge & Wisdom for Global Employee Benefits Professionals

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Leslie Lemenager and LeAnne Stefl, Gallagher

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40 The History of Pooling at Generali
Marc Reinhardt, Andrea Valacchi, Thierry Mestach

Already ISSUE 41 and Going STRONG!

Global Benefits Vision — September 2019

GLOBAL BENEFITS VISION

Knowledge & Wisdom for Global Employee Benefits Professionals

NOTICES

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COVER : AGNÈS M.

Marc Reinhardt

reinhardt@geb.com

Generali Employee Benefits

Director of the Americas region

Marc Reinhardt has the equivalent of a combined post-grad/master degree in economics and insurance from the University of Frankfurt. He has worked for Generali since 1991 with postings in Germany, Italy, and the U.S. While in Germany, Marc specialized in tax and Labor Law as well as actuarial aspects of employee benefit plans for international companies. Moving to Italy, he worked on the technical aspects of multinational pooling in the central reinsurance department of Generali's Home Office. Marc was then assigned to the U.S. as Director of Generali Employee Benefits (GEB) for the Americas region which includes Canada, the U.S., Caribbean, Central and South America.

Andrea Valacchi

valacchi@geb.com

Generali Employee Benefits

Director of the EMEA Region

Andrea Valacchi started working for Generali Trieste in 1988, and moved first to Generali France and then, in 1991, to Brussels, where he was promoted Assistant Manager of Generali European Services (GES).

In 2003, he joined Generali Employee Benefits global headquarters as Area Manager, and then Regional Manager, supervising Western Europe, and the GEB Network expansion in Middle East and Africa. From 2010 Andrea is Director of the EMEA Region.

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Profiles of Contributors

Thierry Mestach

mestach@geb.com

Generali Employee Benefits

Chief Network Officer

Thierry Mestach has a long experience in Employee Benefits. He joined GEB in 2017 after 19 years in AXA and MAXIS in sales, network management and marketing roles. He is Chief Network Officer of GEB.

Thierry leverages his experience to manage a GEB Network that offers and can deliver the best possible local employee benefits, products and services and supports GEB business development area.

PAGE 30: *The History of Pooling at Generali*

Conferences 2019-2020

Conference and webinar organizers, please send information about your events by email to *eric.muller-borle@global-benefits-vision.com*. Publication is free for now and remains at the discretion of the publisher.

AGENDA

Organized by	Event	Begins	Location
SOKA-BAU	SOKA-BAU EUROPE DAY 2019, Brussels, Belgium, 5 November, 2019	05/11/2019	Brussels, Belgium
AEIP	AEIP Annual Conference, Brussels, Belgium, 6 November, 2019	06/11/2019	Brussels, Belgium
Gallagher	50th IBIS Academy, Geneva, Switzerland 11 May, 2020	11/05/2020	Geneva, Switzerland

The History of Pooling at Generali

Marc Reinhardt

Andrea Valacchi

Thierry Mestach

INTRODUCTION TO GEB

Part of the Generali Group, Generali Employee Benefits (GEB) is a leading business line focused on providing solutions in the space of employee benefits for multinational corporations. With a network presence in more than 130 countries and around 25% market share, GEB offers an broad range of services and products that multinational employers may need for their workforce and their families, from locally admitted policies to cross border arrangements for mobile employees and expatriates, as well as the most sophisticated employee benefit solutions at a local level including multinational pooling and Reinsurance to a captive.

At Generali's Investor Day in November 2018, the Group set out its three-year strategic plan to investors, outlining its vision to become "*A life-time partner to Customers*". This plan also made clear the importance of GEB to the Group, with continued investment in the employee benefits business planned.

Over the past year, the Group has optimised its geographic footprint through a strategic review; is enabling digital transformation of distribution; and is transforming its operating model to ensure organisation simplification and scale up Artificial Intelligence.

FROM THE 20TH CENTURY

The concept of pooling was born in the U.S. in the 1950s in direct response to the fact that some companies – and, hence, employee groups – operated across numerous countries. Employers wanted to achieve economies of scale: bundling their insurance contracts together and enjoying volume discounts.

At that time, international refunds of 30-35% – even 40% in some cases – were the norm. Contrast this with the 7-10% average dividend now and it becomes clear that times have changed. The global financing function of pooling now takes second place to a quality network that can help companies manage some of their biggest people issues: namely recruitment, retention, absenteeism and productivity. More on which later.

Meanwhile, Marc Reinhardt, Director GEB Americas, GEB, comments: "*It's safe to say that U.S. companies were more sophisticated – in a financing capacity - than their European counterparts in the 1950s. Consequently, pooling was slow to develop for around a decade, but really took off in the 1960s. U.S. companies were expanding overseas and wanted to achieve the same volume discounts they were now used to with insurance carriers in the U.S. Up until 1992, many of the European markets were tariff markets. In other words, rates were high and, hence, technical margins were fat. Employers operating in Europe were spending a lot but, at the same time, not benefitting from any kind of experience or volume rate.*"

"*At that time, there was also no way of monitoring the scheme experience and performance. Pooling helped tick all these boxes, affording, on an annual basis, savings in the form of a dividend as well as a historical snapshot of scheme performance.*"

Generali first got involved in pooling in 1966, with the first pool established for 20th Century Fox in 1967.

As a side note, captives also came into being in the early 1960s. Originally designed to help mitigate a company's property and casualty risk, GEB represented one of the first

GUPs
Global Underwriting Programmes

networks to use a captive to house international employee benefit programmes. captives have subsequently earned an enviable reputation for helping global companies: mitigate risk; reduce volatility; stabilise costs; improve business intelligence; gain central control over employee benefits and enhanced service at local country level.

TO THE 21ST CENTURY

Fast forward over 50 years and the world – and pooling – looks very different. For a start, we've seen rising life expectancy. In 1960, the average person could only expect to live about 52 years, whereas in 2010, that individual could expect to live nearly 70 years[1].

Also, in the 1990s, tariff markets in many countries of the world were eliminated. Rate levels subsequently reduced due to much increased competition and the associated downward pressure on premiums.

Consequently, many pools started working more closely with product providers to help maintain savings. Through these relationships, captives really started to take off, giving to global companies an unparalleled level of control in terms of managing risks and reducing costs. But they're not for everyone. Putting in place a captive is a big step and not one that should be taken lightly. It requires a company to be very well governed and organised. It also requires considerable commitment in terms of time and costs, in the set-up stages at least.

Enter Global Underwriting Programmes **(GUPs)**. GEB represented the first network to develop the **GUP** concept, around 10 years ago. It gives clients another option in addition to pooling – a next step in effect – with regards to risk transfer, whilst still speaking to the interests of the network in terms of managing risks together with the client.

The success of a **GUP** as an innovative financing solution is predicated on a number of key elements including commitment to a long-term partnership (minimum of three years), combined with technical expertise and pricing flexibility from the insurer.

Pooling now has to compete for prominence with both captives and **GUPs**.

Andrea Valacchi, EMEA Director at GEB, says: "*Most global RFPs [Request For Proposals] from European companies now ask about GUPs and captives over pooling.*"

"*That said, pooling continues to prove popular as part of an overall global benefits strategy, especially amongst mid-sized multinational companies that are expanding and decentralising. They want to capture what's going on locally and pooling represents the right tool to give them that governance and control.*"

Marc adds the picture is pretty much the same in the U.S. "*There are fewer pooling opportunities here too. Global companies want to evidence savings upfront: an advantage that both captives and GUPs afford. pooling, in contrast, requires more patience as the dividend comes 18 months down the line.*"

Where pooling offers an opportunity to optimise the financial and information flow of international employee benefit plans on a retroactive basis, **GUPs** allow for a proactive funding strategy. This encompasses not only upfront pricing optimisation across the entire programme but also enhanced terms and conditions negotiated centrally.

Luxembourg Office - Credits: Generali

This sits well with the current trend amongst global companies towards decentralisation. In other words, decisions on benefits are increasingly being left to local subsidiaries who benefit from the cost efficiencies and clout – when it comes to negotiations – afforded by the parent company, the latter of which also handles functions such as governance and compliance on behalf of the whole group.

In this environment, the dividends afforded by pooling are still valuable but fluctuations and uncertainties can arise, due to the fact that they are calculated according to the performance of the benefits portfolio in each country in which the company operates. Some may not be performing as well as others.

The upfront premium rates optimisations on **GUPs**, on the other hand, are calculated according to each line of cover. Network providers will require three years' worth of premiums and claims data for all countries (large and small) in order to help predict future performance. Also, a premium volume threshold applies, in order to make the programme financially viable.

Networks will then aim to offer double-digit discounts. It has to be compelling.

Research by Willis Towers Watson[2] shows that well-managed pools can achieve savings of 14% or more. Well-managed captives can achieve savings of 25% or more but incur additional costs to maintain. GUPs will sit somewhere in-between.

RECENT INNOVATIONS FROM GEB

GEB last year launched its innovative pooling product LifeCycle. This was designed in response to the growing number of mid-sized companies on the competitive international stage and the requirement on HR leaders to do more with less in terms of attracting and keeping the right people for the job.

The minimum entry requirements for international clients is: annual risk premium spend of €20,000; and just one initial contract in place, such as group life or group income protection.

The product adapts to the client's size and risk profile over time on the basis of premiums and countries included in the pool. So as a company grows or contracts the pool could switch from being a multiemployer pool (for smaller groups) to a standalone pool (for larger companies) and vice versa, allowing continuing access to the benefits of pooling without being required to review and sign a new pooling agreement when circumstances change.

This helps provide stability over time so that the pool can remain an attractive option for subsidiaries to participate in.

Andrea comments: "*Prior to LifeCycle, when a company wanted to move between a community rated multiemployer pool and a standalone pool they had to go through a lengthy legal and compliance process. Now, whether they are going through a period of acquisitions or divestitures, the pool flexes automatically with them.*"

"*This also brings to more mid-sized companies the non-financial benefits of a pool. We give to our entire pooling customer base the kind of sophisticated reporting tools that were isolated to captives in the past – for example, healthcare utilisation paid claims reports. This allows HR to collaborate more effectively with Risk Managers, effectively providing a risk management tool.*"

Alongside LifeCycle, GEB also designed and launched MyGEB, a new communication platform for employers and brokers. This provides a wealth of benchmarking information on benefits and market practices in other countries. It also allows for multinational pooling simulations: showing what a benefit would look like in the LifeCycle product (i.e. benefit premiums for each country in which the company operates and potential dividend payout – overall and per country) using either actual figures or estimates based on GEB's existing portfolio.

LATEST MARKET SHIFTS

The focus for networks is now much more on the quality of local providers and the service they can provide.

Thierry Mestach, Chief Network Officer at GEB, comments: "*Key for us is offering a panel of really strong providers: the best in class in the most important countries – namely those where the highest percentage of premium volume is generated. The global financing aspect now comes secondary to helping our clients manage their top issues, such as employee health and wellbeing and absenteeism.*"

Marc adds: "*When we're invited to final presentations as part of RFPs, we are now asked to provide evidence of the expertise of our local network partners: their local service capabilities. This represents a big shift.*"

The global health and wellness team at GEB is key in this regard. GEB pioneered global medical dashboards for captives in 2012 and stepped up its game last year in terms of content, format and functionality, providing unparalleled access to clear and illuminating information. GEB is now first to offer dashboards that are tabular *(easier navigation in and between countries)*, interactive (drill-down capability for deeper insights) and with embedded benchmark data (immediate comparative analysis). GEB's dashboards allow for individual interpretation of the graphs and tables, context about the market and local cover, and recommendations on how to mitigate the trends and cost drivers.

In another new development last year, GEB launched Interactive Booklets. All pooling and captive clients with more than one year of experience will now receive a dedicated username and password so that they can log in to their interactive booklet. This provides clients with year to date comparisons on several metrics: premium; claim; and balance. Users can select KPIs by aspects such as line of risk, country and region in order to look at their data.

Thierry says: "*The market shift from payer to partner is reflective across the insurance industry, with providers moving from being claims payers to tackling issues.*"

The need to provide truly integrated services, tailored to client needs, across protection, prevention and assistance is essential now.

However, with trends come new challenges for pooling. For example, the growing trend towards voluntary benefits could raise questions with local regulators if such benefits are included in a pooling arrangement.

Andrea explains: "*pooling clients benefit from tax deductions at local level. But if personal contributions – for example, through voluntary benefits or employee contributions to a compulsory pension plan - go towards building up those dividends, local countries will increasingly question this. Why? Because the sole beneficiary is the parent company [which is often based in a different country to where the personal contributions have been made].*"

"*The regulator in Norway has already addressed this where pension funds are concerned. Any margins arising from personal contributions have to go back to Norway to replace the pension fund.*"

Marc adds that there is already regulation and law around this in the U.S.

THE FUTURE

On a final note, Thierry acknowledges that GEB is a network, not a consultant and it is only through collaboration that the complex needs of clients will be met. "*We need to work in partnership. We can't do this on our own. We'll only add value to our clients by working as part of an ecosystem.*"

"*The world was relatively simple before. It's now much more complex thanks to decentralisation, regulation, data privacy – plus the many nuances by country – not to mention the overriding need for companies to make much more of what they've got.*"

"*But sometimes through complexity, you're thrown interesting opportunities.*" ∞

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1– *How much has life expectancy increased since 1960?* Openpop.org, a collaborative blog on global population issues [accessed July 2019] https://www.openpop.org/?p=695

2– *Multinational pooling and captives increasingly used to limit cost of insurable employee benefits globally,* Willis Towers Watson, March 2017 https://www.willistowerswatson.com/en-GB/News/2017/03/multinational-pooling-and-captives-increasingly-used-to-limit-cost-of-insurable-employee-benefits