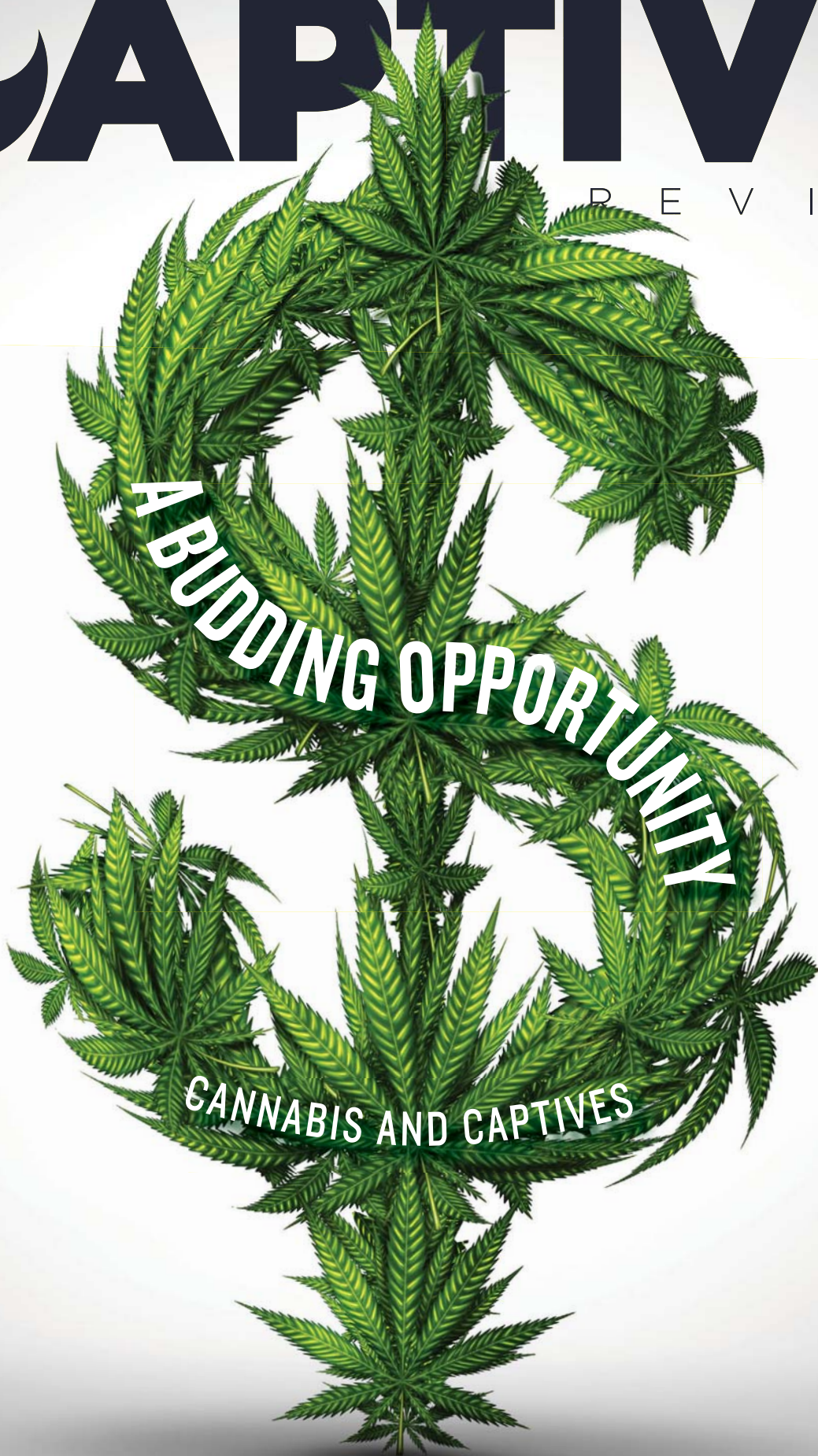


CAPTIVE

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ASIAN CAPTIVES WINNING PRAISE AND INFLUENCING EVOLUTION

Steve Wong, director, Generali Employee Benefits (GEB) Network, Apac Regional Office reflects on the captive landscape, the current trends, and his views on post-pandemic evolution

Captive Review (CR): How have captive programmes in Asia stepped up during the pandemic?

Steve Wong (SW): With the onslaught of the Covid-19 pandemic spreading, first throughout Asia and soon after throughout the world, the urgency to ensure that there was access to medical treatment – and adequate insurance coverage – were top-of-mind items for everyone; from individuals to governments and to every multinational corporation, with a view to ensuring the wellbeing of all their people.

Employee benefit captives stepped up to play a very active and important role in ensuring the coverage for organisations' employees around the world was adequate amid the developing health crisis.

During the initial phases of the pandemic, the focus was first to identify, country by country, if there were any exclusion clauses on medical plans for pandemic, communicable diseases, or both. And if so, to determine what could be done about it. Next was to identify whether the level of coverage was adequate and what other types of coverage might be needed.

We found that the policy contracts in most Apac countries did not have an exclusion for pandemic. Where there was, the captives stepped up to arrange for it to be waived.



Steve Wong joined Generali Employee Benefits in September 2018 as director for the Asia Pacific region. He spent his early career in Canada in actuarial roles before returning to Asia. Over the last 20 years, Wong has held various management positions in insurance companies across different countries in the Asia Pacific region, covering both life and health businesses, from product design and development to sales and distribution.

Our analysis found that the level of benefits was largely adequate as the respective governments in most of the Asia Pacific countries stepped up to provide cover – with respect to hospitalisation and treatment – along with most of the cost associated with the treatment of Covid-19 patients. Where we did identify inadequacies, the level of benefits was increased.

These high level examples help illustrate the way in which captives played a very effective role. It's all about affording flexibility and control. And it's made possible because captives can make decisions quickly with their associated multinational corporation employers. This is helped in no small part by the fact that a captive assumes most or all of the risks, so

the negotiation-to-implementation timeline with local insurers is much shorter.

CR: Do you think that this kind of experience will represent the catalyst for evolution of the captive market in Apac?

SW: When we reference captives in Apac, we're talking mostly about those associated with US and European multinational corporations. For that reason, we prefer to talk about captives 'active' in Asia, as opposed to the evolution of the captive market.

Captive arrangements haven't yet managed to secure a foothold among Asian multinationals; in part because many do not have a formal framework in place with regards to their overseas subsidiaries' employee benefits insurance programmes.

That said, there is a budding interest among Asian multinationals to rely on captives as a management tool for their employee benefits insurance programmes in the region and beyond. This is especially the case for those that already have captives set up for their property and casualty risks.

However, it should be borne in mind that most Asian multinationals' employee benefits programmes are decentralised and that makes the potential shift to an employee benefits captive a slightly longer



journey. They tend to be decentralised because there are so many differences in local rules and regulations across Apac countries that they, quite understandably, prefer to leave it with local HR to do what's right. Therefore, to move to one captive might require considerable resourcing, at least at the outset.

Setting up an employee benefits captive is challenging because where employee benefits are concerned, local healthcare, tax and social security regimes, among many other factors, determine what the programme should look like, which makes more complex.

The pandemic has, however, raised awareness of the usefulness of global employee benefits arrangements in mitigating risk exposures. It has also accelerated the need for multinationals to review their employee benefits programmes, of which group insurance, especially the medical component constitutes a significant portion. This is because most countries in Asia do not have a robust medical financing programme in their national/social security frameworks.

While the attraction of being able to decide or dictate what the medical insurance covers of their subsidiaries should look like has always been seen as one of the benefits of having a captive programme, Covid-19 has effectively underlined the importance of having this option.

CR: Are captive arrangements helping plug the gaps when it comes to the Covid-19 vaccination rollout?

SW: Local insurers will typically not cover vaccinations. This has become a hot issue in countries where national Covid-19 vaccination programmes are not implemented adequately and promptly. Likewise, outpatient laboratory tests are not usually covered unless hospitalisation subsequently ensued. With a captive arrangement, however, these 'gaps' could possibly be addressed, assuming vaccines/test kits are available to the private sector.

The fact that many governments are paying for Covid-19 treatment/vaccinations negate an urgent need for the establishment of a captive. But this past year has placed this need on the radars of many Apac-based multinational corporation. It is not inconceivable that, in the longer term, governments may stop paying for Covid-19 treatment/vaccinations and local

insurance covers may have limitations on the extent of coverage for Covid-19 and the related situation (e.g. vaccination) as well as benefit limit.

CR: How else has the pandemic experience helped raise awareness in Asia Pacific of the advantages of employee benefits captives?

SW: Perhaps the advantage of having a captive is best exemplified in India during the prevailing pandemic. The market went completely dry of insurance capacity and many employers, including the best and the biggest names, could not renew their life plans and had to move into self-financed schemes. The concept of insurance wherein large numbers pool the losses for the selective few is good in standard conditions, but in situations like the current pandemic, either the covers become extremely restrictive or the capacity is completely dried for any meaningful risk mitigation tool to exist.

“With the new normal/working from home from various geographical locations, the needs of each employee are likely to be more diversified than before”

Hence, large corporate clients in India are actively looking at other risk mitigation tools and the captive arrangement is obviously one of the options to look at.

Other Asian multinational corporations are also more mindful of the need for alternative solutions, because 'business as usual' is clearly no longer a reliable option.

CR: How do you expect new ways of working – in terms of the borderless workforce – to impact employee benefits captives?

SW: The 'new normal' meant that employees could be working virtually from any global location, and the traditional 'office' concept is no longer the mainstream. So employee benefits programmes need to be looked at again, as employees' needs would

be different from pre-Covid-19 days. The one-size-fits-all is never the best solution but probably holds its own because a customised/personalised solution is going to be more expensive.

However, with the advent of modern technology, customised/personalised solutions may no longer be prohibitively expensive. Also, with the new normal/working from home from various geographical locations, the needs of each employee are likely to be more diversified than before.

Operating under a captive arrangement, it will be easier to introduce changes to the local insurance policies/terms.

Having a captive also means that a multinational corporation will have access to first-hand data related to the claims trends of all the subsidiaries participating in the captive, allowing for detailed analysis. This, in turn, translates into more precise employee benefits policies/solutions on global or local level.

CR: What other trends are you seeing in response to the pandemic?

SW: Asian multinationals are more aware of captives and the benefits that captives bring to the table, especially with the Covid-19 situation magnifying the situation, as already discussed.

However, it should be noted that while there is interest in looking for alternative solutions, this interest is not necessarily confined to captives.

Financing or subsidising the premium for individual medical insurance is also an option. For example, the latter has been promoted by the authorities in Singapore for some time, in part due to the changing employment landscape; people typically are changing employers more frequently than before – for example, lifetime employment with one company is passé – and to ensure continuity of cover, the idea of portable medical insurance has been mooted.

Lastly, it should be noted that captives and their influence over a local insurance policy are impacted by local regulations, which may be changed from time to time.

An example would be the 50% limit imposed upon reinsurance to non-local reinsurers, in the case of Malaysia. This means that the local insurers retain a significant amount of the risk and captives need to negotiate the terms/rates with the local insurers. ☺

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