



Generali

The essential ingredients for the perfect EB captive

A few items work together to produce an efficient end product, says Luca Baldassare of Generali Employee Benefits Network.

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Luca Baldassare, GEB Network



Anyone who knows anything about employee benefit (EB) captives knows that they come with unparalleled cost savings, controls and flexibility baked in. But that doesn't happen by chance. It takes a considerable degree of experience, expertise and effort upfront to get the ingredients precisely right. As the English phrase goes 'The proof of the pudding is in the eating'. In other words, you can judge the quality of something only after you have used it for its intended purpose.

And, with 50+ years of experimenting with ingredients and taste-testing, we like to think we know a thing or two about creating the perfect end product. Here, we share this insight.

The ingredients

Consider working with an independent consultant, who will help with regard to conducting a feasibility study, designing the communication strategy and selecting a network partner.

Many EB captives continue the relationship with a consultant way beyond the setup stage, to help with the ongoing management of the captive. This might include support with data analysis; to help identify all costs, improve processes and identify any problem areas within the client business—for example, utilising healthcare dashboard—so that solutions may be tailored accordingly.

Feasibility study

The first step in the setup process involves conducting a feasibility study to determine whether an EB captive arrangement makes sense. This includes the collation of EB data globally to help determine what is already in place, plus overall EB spend, risk and what is covered locally.

Minimum EB spend of around €5 million and a good spread of risk over a number of countries represents the ideal starting point, although this can vary hugely depending on the organisation's objectives.

A feasibility study would bring to the fore all the pragmatics, allowing organisations to better articulate and understand their own corporate philosophy and risk appetite, before making any decisions.

Understanding corporate philosophy is all about getting to grips with: what is the DNA of the organisation? And what is its purpose and ethos?—the thing that determines its priorities and risk appetite. Ultimately, it's about understanding people—in terms of employees, local communities, network partners and other key stakeholders.

Alongside the feasibility study, it is vital to focus on gaining senior executive buy-in before progressing any further.

Network partner

Success of the EB captive is strongly dependent on the choice of network partner and its capabilities. Here are the key aspects to consider:

- Solvency of the network: locally and centrally;
- Ensuring that geographies match, in terms of the provider's local insurer partners and local subsidiaries of the client company;
- Reinsurance capabilities: what levels and from which countries can the company reinsure?
- Reporting capabilities: this needs to be comprehensive—fully digital and interactive as well as underwriting year reporting capabilities;
- Tools to support the client in all areas, from renewal and underwriting to document processing, medical trends, mental health and wellbeing;
- Strong focus on data quality: ISAE 3402 certificate obtained;
- Counterparty risk assessment: a dedicated unit of the network partner to serve as rating agency; and
- Tailormade protection offerings: stop loss, surplus and catastrophic cover.

Communication strategy

The next step is to design a communication strategy to ensure buy-in from all business areas, at both central and local levels.

Why is this needed? Because organisations do not tend to have a central mandate to say that EB business has to be placed in the captive. Therefore, full buy-in requires a cohesive and persuasive narrative; one that extends beyond just the financial operation to also encompass the benefits that a personal and tailored approach to underwriting, terms and conditions can bring to people and business.

As well as defining the goals for the captive strategy, the communication strategy should factor in the need for agreement on an approach to tiered country-by-country implementation.

Baked for success

Once all the ingredients are sourced and added, the captive and its network partner are in a position to raise the bar beyond the—perhaps more obvious—financial aspects (pricing optimisation and cost control) to the—arguably less obvious—people-related aspects (recruitment, retention, productivity and profitability) in a way that is sustainable and in line with company philosophy.

For global companies looking to mitigate risk, reduce volatility, stabilise costs, improve business intelligence, and gain central control over employee benefits—yet give enhanced service at local country level—there might be no better solution than a captive.

The taste test

We spoke to one of our EB captive clients to ask what benefits it has brought to the business as a whole and to the captive.

"For Maersk and MIAS (Maersk's internal insurance captive) it was a big step deciding to use the captive as the risk carrier for our global EB insurances (EBI). It has taken much work and effort to identify and roll over all EBI policies to one global structure with one broker and two preferred providers," explains Kasper Jensen, insurance underwriter, treasury & risk, at Maersk.

"Finding the right broker and, subsequently, the best preferred providers has, fortunately, been a success. Generali Employee Benefits (GEB) has proved itself a strong and competent partner," Jensen adds.

"Following MIAS' acceptance of EBI risk in 2020, we have worked hard and prudently together with our broker and preferred provider partners to ensure the captive fully understood the risk that has come into our books. Here GEB has been an essential partner.

"It should be a well-considered decision to include EBI risk in any captive's portfolio, but for our captive the benefits have definitely outweighed the downsides."

Jensen explains that some of the benefits to Maersk and MIAS include:

- Premium optimisation as MIAS' focus is on setting a *sustainable* premium with a combined ratio close to 100 percent
- A direct link between the local business unit and the insurance cost, with MIAS always ready to explain the underlying mechanics of the premium level
- Securing a better collaboration between the local business unit and the local insurer where MIAS can act as the joining link
- A possibility to shift focus from chasing the lowest premium to now focusing on bringing down claims (and ensuring a healthier workforce)
- Actively using EBI as a part of the employment package for employees with alignment of benefits across job-levels and geographies
- The diversification of the MIAS portfolio with a broader scope of premium income uncorrelated with the organisation's other business

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