EMPLOYEE BENEFITS: VIEWS BY REGION

Generali's captive directors for Emea, Andrea Valacchi, the Americas, Marc Reinhardt, Apac, Steve Wong, and chief customer officer Frederik Van Den Eede, discuss the different approaches of companies to employee benefits by geographical region

Captive Review (CR): What appetite are you seeing in your region for setting up new employee benefits captives?

Marc Reinhardt (MR): Over the last five to six years, we've seen a significant increase in programmes on the employee benefits side. There are more large companies with a significant risk management philosophy in place going down the global captive route for employee benefits, often piggy-backing on a non-life programme that was set up for property and casualty business. That's first and foremost because cost control is important to international companies today. Employee benefits are often a very costly component of a compensation package, and increasingly so, especially if we look at the medical markets today where medical inflation trends are heading. It's about understanding the spend they have globally and getting that line of sight. Captives, obviously, are a vehicle for controlling costs and achieving savings.

Andrea Valacchi (AV): When it comes to Europe, I would say we are following the development paths of the North American market in employee benefits. But there is one additional point that comes into play when it comes to European-based companies. That is ESG and the meaning of social concern within a corporation. Recent programmes that have been implemented across Europe have had social concern as one of the main drivers of the framework in deciding to include employee benefits within a captive programme.

Steve Wong (SW): The market environment in Asia is different. The captive businesses in Asia are predominantly companies of US and European origins located in Asia. Companies of Asian origin look at employee benefits as something that can be easily outsourced and they don't need to take the risk. Employee benefits in Asia is heavily weighted on the medical coverage and there are a lot of providers. That means rates are very competitive and they don't see the need to take the risk themselves. In short, at the moment, the need is not quite there yet for Asian-based companies to retain the risk within a captive framework.

CR: What are the main market differences that make captives a more popular option in North America and Europe?

Frederik Van Den Eede (FVDE): For European and American captives, it's not just about the price. Yes, they could possibly go into the traditional markets and get a lower price if they wanted to, but that's not

Andrea Valacchi

Andrea Valacchi joined Generali in Trieste in 1988. He moved first to Generali France and then Brussels in 1991 where he was promoted to assistant manager of Generali European Services. In 2003, he joined GEB global HQs as area manager, and in 2006 was promoted to regional manager. Valacchi has been acting as director of the Emea region since 2010.

Frederik Van Den Eede

Frederik Van Den Eede has been working for GEB for over eight years. Starting in the Brussels sales department, within a year he was area manager with responsibility over the Benelux area and soon after the French market. He was recently promoted to chief customer officer, responsible for steering the sales and business development, global intermediaries management and customer relationship management across all regions.

the only thing that's important. They want the right benefits, they want good service locally and they want to budget correctly. They don't want to have a big increase one year and then a big reduction the next. They prefer it to be predictable. On the contrary, getting the cheapest price offered locally is still a bit embedded in what the Asian multinationals are doing right now.

SW: It's also worth adding that by and large for an Asian multinational, their scope of operations is still mostly within Asia. So, compared to European or US multinationals, a lot simply don't have the scale to justify starting a captive at this point in their development. This is changing over time, as we are seeing more companies in India and China especially going global, but they're not quite mature enough at this point in time compared to their European and American competitors. That said, quite a number of companies from Japan and Korea are already global in scale and some of them are starting to explore an employee benefits captive approach in some limited way.

CR: What are captive owners' attitudes to supporting the same employee benefits package to all employees globally?

MR: Complete harmonisation on employee benefits is generally not feasible for North American companies. Every market is different and you can't have a global health insurance plan for all employees. Nor can you have a global disability plan for all employees, but you can have a common denominator and that's what employers often try to achieve – a minimum level of benefits coverage in place around the globe for all of their employees.

AV: We are seeing more European companies looking for equality and wanting their benefits to be aligned across the entire worldwide spectrum. This is an important peculiarity, and a recent development, in the European markets.

They are also linked to the concern that certain worldwide events have had an impact when it comes to governance, such as the pandemic. When Covid-19 started, clients were very much concerned whether their employees would be covered and have realised that a captive framework could allow them to go beyond the standard market conditions that would be available in a given marketplace.

Marc Reinhardt

Marc Reinhardt has worked for Generali since 1991 with postings in Germany, Italy and the US. While in Europe, Reinhardt specialised in tax and labour law and worked on the technical aspects of multinational pooling. He was then assigned to the US as director of GEB for the Americas region, which includes Canada, the US, Caribbean, Central and South America.

Steve Wong

Steve Wong joined GEB in 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 Apac, covering both life and health businesses, from product design and development to sales and distribution.

CR: How can a captive best accommodate employee benefits within the regulatory environment of your respective territories?

MR: Captives obviously need to be regulated in their respective domiciles and we have a number of domiciles here in the US. The regulatory environment is a major consideration for any captive when they start a programme, and that's especially true for employee benefits. Captives lend a lot of flexibility to corporations to modify, plan, design and introduce benefits that are not market-standard. Some countries will have regulatory limitations, so we have to be mindful of those and help the captive to navigate them.

AV: Captives located in Europe are subject to Solvency II regulations, both in terms of capital requirements, risk management and data governance. Not only this, but starting from 2023, IFRS 17 is going to come into play as well. This will have an impact on how accounts are processed. I'm noticing there are regulators that are particularly strict in the way this framework is to be assessed and eventually approved in the case of renewals and new licences that come into place. Domiciles that come to mind where it might not be so easy to get a licence are Switzerland, Germany and Luxembourg, even though it is a country that is very business-friendly.

FVDE: One thing you can clearly notice is that in the last couple of years there have been many more requirements from captives in terms of the data they receive, based on the questions they ask and the details they require.

I think that, a couple of years ago, it was just a matter of receiving the financial overview, and if you received it on time, it was all the better. Now you need the invoices, you need details on the local taxes, the reinsurance taxes, occurrence year data, etc. It goes into greater detail than before. This is in part related to the type of reporting required from the regulators in the domiciles.

CR: What flexibility do employee benefits captives have in order to evolve with growing demands around employee wellbeing/mental health?

AV: The most sophisticated captives are very much involved in initiating activities within their own corporations in improving wellbeing. Wellbeing is important for determining the production of healthy habits in a community, which can have an impact when it comes to medical plans. It's expected that there will be a lower utilisation, which means better results, and better results means the budget of the medical plans can be reduced.

ESG is one of the main reasons European companies look into forming captives and that's because the value of a company in the future will be more determined by their attitude toward ESG. A captive programme can be a tool for the employer to deploy a duty of care and meeting these ESG requirements.

MR: The pandemic has brought mental health issues to the fore in a way we have not seen previously, so it's a top concern for many employers around the world to make sure that there is proper support for employees in place.

We know in many countries around the world a standard medical plan does not include mental health coverage, so we have these ancillary services now that allow a captive to fill in the gaps. It's a general trend that employers are supporting their employees more and creating a working environment that is better conducive to wellness and productivity.