

captive **insurance** times

The primary source of global captive insurance news and analysis

Conference Special



FULL STEAM AHEAD

ALL ABOARD THE CAPTIVE

EXPRESS

Cyber Review
A captive solution
to cyber risk

Tax Reform
John Dies discusses
the impact

Captives Are For Risk Management

Do You Have The Right **Insurance-Experienced Team** For Your Captive?

To learn more about ACM, contact
mmckahan@activecaptive.com.
Visit us online www.activecaptive.com



**ACTIVE
CAPTIVE**
MANAGEMENT



Capturing the benefits

Vittorio Zaniboni of Generali Employee Benefits discusses the evolution of fronting networks to help captives better manage their people risk

Traditionally, the preserve of property and casualty risk, there has been recently a growing awareness of the advantages of funding employee benefits via a captive. Running parallel to this expanded remit over the past few years is the evolution of employee benefits networks from reinsurance transfer operators, to partners of captive managers able to provide specialised technical and data know-how, to help mitigate risk, reduce volatility, stabilise costs, and supply benchmarking data and detailed business intelligence. The latter may be used by risk and human resource managers to help identify all costs, improve processes and identify any problem areas so that solutions may be tailored accordingly.

In this article, we investigate how the role of major players (namely fronting networks, risk managers, human resource managers and of course employees) has evolved, often pushing them to go beyond their initial remit and develop new areas of expertise and involvement.

We have identified three main stages in the evolution of employee benefits captives:

- The reinsurance aggregation stage: when the relationships between providers and captives were based on the mere reinsurance transfer
- The data aggregation stage: when fronting networks were pushed to invest in advanced data analytics capabilities to enable corporate decision-making
- The service aggregation stage: where fronting networks became partners in identifying and combining value added services

The reinsurance aggregation stage

The addition of employee benefits in a captive arrangement came about in response to market demand. Types of benefits typically included are: life, accident, disability, medical, and business travel insurance. Putting a wide variety of employee benefits in a captive helps lend stability to the programme and gain risk diversification. This can be particularly advantageous when property and casualty business is in there too.

Generali Employee Benefits was one of the first market players to accept this challenge. This was largely due to our expertise in international life insurance and our understanding of how to adapt different risk management philosophies and needs to employee benefits, with their specific requirements and dynamics.

Back then, access to local insurance capabilities and a wide network of local partners were key. Our efforts were then concentrated on insuring this access, setting up the network backbone and making it work. Acting as reinsurance aggregators, we had to manage treaties and consolidate reinsurance arrangements into a global flow for each client.

While this phase was instrumental in building the capacity for these solutions, we soon understood it was not enough. Fronting networks entered a new conversation with our counterparts to enlarge and reinforce the added value brought in the partnership with captive managers.

The data aggregation stage

Thanks largely to advances in data analytics, General Employee Benefits and other networks started to focus on the kind of data reporting we could provide.

We were asked to take a more proactive stance by aggregating data in ways that help mitigate exposure to risk—for instance, providing insight on the client's premiums or claim patterns.

Captive clients were not just interested in a historical overview anymore. They wanted to anticipate benefits spend and risk management activities and not necessarily to only reduce costs.

They sought to optimise their investment, ensuring the greatest impact from their benefits plans and improving the way local schemes were underwritten. This was the time in which captive managers started to interact more synergistically with their global human resource functions, involving them more and more into the decision making process on the captive side, as far as employee benefit schemes were concerned.

The need emerged to expand the traditional global annual report to include the monitoring of local trends, for example quarterly drill-down reports, and to a granular view on individual policies in a captive programme.

As ultimate owner of the risk, captives demanded we helped them understand in-depth individual policy terms and conditions, for benchmarking or global consistency purposes. A captive may decide to follow local market practices or ask if possible to modify specific terms and conditions, usually with the objective of harmonising these features across their local subsidiaries in different countries.

In the long term, the visibility and data detail now readily available are pushing fronting networks to move beyond simply aggregating data, towards developing more advanced risk management services.

For example, around five years ago Generali Employee Benefits pioneered the design and launch of new medical reporting tools. This provides companies with unique insights into their medical experience, enabling them to really understand medical consumption. Reports can highlight specific patterns and issues in each country and inform benefits decisions, helping them tackle any underlying medical cost drivers that are identified. Moving forward along these lines, we'll soon launch even more advanced data analytics tools, and technical analysis capabilities, aimed at improving the timely governance of this critical line of risk.

The service aggregation stage

One of the key trends ahead is to develop not only reinsurance and reporting services but a wider range of solutions to better manage the impact of benefits plans on employees, employers and the overall community.

The ongoing need for funding networks to offer easy to read 'data-narrative'—in other words delivering insight through the swift and smart analysis of data—will only increase. In short the market will define more creatively its role as insurance and service provider.

Fronting networks are for instance now heavily investing in health data management and accompanying wellness and prevention programmes.

Other areas of development include:

Renewal support services: In addition to helping further streamline renewals management, captives now expect more direct support from fronting networks in assessing local quotes via a dedicated global underwriting function.

Intelligence services: For example, bridging the human resource and risk management gap. These two business divisions are traditionally siloed but now they have so much in common as 'people risk' is identified as a major factor in organisational success or failure. Intelligence services also extend to market insights and benchmarking. The latter is often overlooked but crucial in the assessment of scheme performance.

Leverage of voluntary benefit plans: Access to quality yet cost effective voluntary benefit plans, and the kind of added-value wellbeing benefits that are usually included with disability benefits, can help support employee recruitment, engagement and talent attraction and retention.

The support a fronting network can provide to a captive may play a crucial role in ensuring access to such services across global corporations.

Local insurer management: Local insurers now face much greater scrutiny by fronting networks. Good local service reputation is no longer enough.

In order to give captives the peace of mind they need on the way their business is managed by third parties, fronting networks must assess partners on various aspects such as administration, data reporting and reserving. These are key requirements to move risk and financials down the reinsurance route.

Applying a risk management philosophy to the employee benefits arena is driving major players to invest in creating value for corporate strategies in order to attract and retain a healthy, productive and engaged workforce—all the essential elements of a successful business.

Long may the collaboration and evolution continue. And with the right investment of focus, time and finance from all parties there's much more to come for employee benefit captives yet. **CIT**

“

Long may the collaboration and evolution continue. With the right investment of focus, time and finance from all parties there's much more to come for employee benefit captives yet

”

Vittorio Zaniboni, CTO, Generali Employee Benefits

