TAKING STOCK

A PERIODIC EXAMINATION OF KEY ISSUES AND TRENDS FROM MARSH'S RETAIL/WHOLESALE PRACTICE

USING A CONTROLLED MASTER PROGRAM TO SUPPORT GLOBAL GROWTH

Over the last two decades, retailers and wholesalers have gone increasingly global, setting their sights on growth opportunities outside of their home countries, including in emerging markets. But global expansion can be riddled with complications, including several factors that can make managing global insurance programs a challenge. For the retail and wholesale industry, these impediments can include:

- The frequent opening and closing of locations around the world.
- The hiring of expatriates, local nationals, and third-country nationals.
- Exchange rate fluctuations.
- Contractual and insurance requirements with foreign manufacturers and other international vendors.
- Mergers, acquisitions, and divestitures.
- Global product recall laws and regulations.

Each of these factors can affect risk exposures and insurance coverage needs, both in specific countries and globally. And the accompanying headaches can be further complicated by regulatory mandates in every country in which an organization operates.

To better manage global insurance programs, many multinational retailers and wholesalers are turning to controlled master programs (CMPs). Combining the advantages of a single global policy and individual policies for specific countries of operation, CMPs can help multinational organizations achieve better control over their portfolio of insurance policies while maintaining consistent coverage.

THE CONTROLLED MASTER PROGRAM

A CMP is designed to balance the desire for consistent terms and conditions against the realities of local market practices. A CMP combines a global master difference-in-conditions/difference-in-limits policy with desired underlying local policies, offering multinational companies consistency of coverage, specialization where needed, and local market compliance.

Under a CMP, a master policy sets forth global terms and conditions and "local" underlying policies are issued where desired. Ideally, these local policies would mirror the master policy, but that's not always the case. Global insurers often issue a "good local standard" underlying policy; there could be material differences between this standard policy and the actual policies used in individual countries.

Subject to legal and/or regulatory requirements, the master policy responds above and beyond the underlying local policy in two ways:

MARSH

- Difference-in-limits (DIL): These limits can be accessed when the underlying policy has been exhausted, if the master policy covers the claim.
- Difference-in-conditions (DIC): This coverage may be available when the underlying policy does not provide cover but the master policy terms and conditions are broader.

IS A CMP RIGHT FOR MY ORGANIZATION?

For multinational retailers and wholesalers, a CMP can offer several benefits. These include:

- **Consistency:** Through a CMP, an organization can build a coordinated risk management program for all countries in which it operates, with fewer gaps in coverage globally.
- **Cost:** Organizations that use CMPs can exercise more concentrated buying power for global and local policies.
- **Ease of administration:** Compared to independent, local policy purchases, a CMP offers far greater command and control of global insurance portfolios.
- **Allocation:** Subject to local restrictions in some countries, working with a single insurer for a master policy and all local policies can allow for flexibility in premium allocation.
- **Compliance:** Issuing policies that conform to local regulations is easier under a CMP than it is under a more decentralized approach.
- **Claims:** By using a single insurer and global adjuster for all claims, the claims process can be simplified under a CMP.

Despite these benefits, a CMP may not be right for all organizations. Compared to a single global policy, a CMP is generally more expensive and requires greater program management. There are also regulatory and tax considerations — for example, the need for local insureds to directly remit insurance premium taxes.

Ultimately, designing a multinational insurance program is a complex undertaking, and requires risk managers to consider several factors. Before choosing to use a CMP or adopt another strategy to manage its global insurance program, risk managers should ask several questions, including:

- How much control or influence do you have or want over local policies?
- How important is consistency across your global footprint?
- How concerned are you with local compliance?
- Do you prefer to work with one insurer or many insurers?
- Do you prefer your claims handled remotely or at point of loss?
- Are you concerned about repatriating claims payments and associated tax consequences?

GETTING STARTED WITH A CMP

If you decide that a CMP is right for your organization, you should contact your broker or other risk advisor to begin the marketing process and discussions with underwriters. When you reach that point, you should be ready to provide underwriters with two key pieces of information:

- An overview of your global exposures. Among other items, underwriters will want a detailed breakdown of your sales and headcount by country. You should also be able to present information about all vehicles owned and operated overseas and typical travel activity for your employees.
- A complete listing of your local policies. Policies purchased for individual countries could have differing limits, deductibles, and other conditions. Organizations should create an inventory of all policies globally to present to underwriters, and talk to their brokers and other risk advisors about how to use analytics and other tools to determine the optimal policy structures.

This briefing was prepared by Marsh's Retail/Wholesale Practice, in conjunction with Marsh Multinational Client Service.

For more information about controlled master programs and other global insurance solutions, visit marsh.com, contact your Marsh representative, or contact:

MAC NADEL
Retail/Wholesale, Food & Beverage Practice Leader
+1 203 229 6674
mac.d.nadel@marsh.com