GOOD TO MERGE

Zurich's Paul Wöhrmann and Reto Heini explain the advantages of merging EB and non-life in a captive

Dr Paul Woehrmann

Dr Paul Woehrmann, head of captive services Europe, Middle-East, Africa, Asia Pacific and Latam, was ranked the third most influential person in the industry by *Captive Review* in 2016 and 2017. He has been with Zurich for over 28 years and leads a team of experts which is located in several countries across the world in order to meet non-life and life requests from captive owners. Woehrmann studied economics at the universities of Hamburg, Cologne and Fribourg.

Reto Heini

Reto Heini is a EB captive specialist at Zurich Global Employee Benefits Solutions, based in Zurich Headquarters. Heini has over 25 years of experience in the insurance and consultancy industry. He has a background in both life and non-life business and has spent the last 20 years working in the EB field.

Many captive owners running a European based (re)insurance captive have recognised the advantages of integrating employee benefit (EB) insurances into their existing non-life captives.

A lot of discussions with captive owners during the European Captive Forum in November 2018 have clearly created confidence that the development of bringing together non-life and life risks in one (re)insurance captive continues. This will increase the role and the profile of the captive within the parent company's family.

Here are some market observations, which show why a captive owner should not miss the opportunity to extend the scope of their captive to include EB exposures.

Take advantage of purchasing power

Discussions with captive owners confirm the view that current EB insurance set-ups are often still localised. Typically, this aligns with the organisational responsibility of human resources (HR). Therefore, captive (re) insurance involvements are usually individualised on a country-by-country basis. However, such a handling results in a complex and costly (re)insurance administration. Since many EB captive (re)insurances include a stop-loss protection, a country-specific UWR view may be required on top for every single insurance fronter. Based on the fact that HR has mandated different EB insurers in each country, the (re)insurance captive will be challenged with a variety of country-specific (re)insurance administration and credit risk views.

Strengthening of the holistic strategy

The holistic captive approach results in tangible value for HR teams, since they receive transparent risk reports and can benefit from attractive loss ratios. Usually, HR managers are responsible for EB while risk managers are responsible for the non-life exposure management and are asked to oversee the operational management of existing captives. The holistic captive view has resulted in a stronger collaboration between risk managers and their HR colleagues. While risk management and finance tend to focus more on the financial advantages gained by the inclusion of EB plans into the captive, the traditional interest of HR has been the recruitment and the retention of employees supported by benefit plans. The challenge that remains for organisations that wish to implement an EB captive program is to convince HR of its advantages.

Since EB business needs to be transacted at a local level for regulatory reasons, each country will have its own standard exclusions to cover specific scenarios. For example: captive owners involved in reconstruction and development in dangerous regions have secured insurance cover for "passive war" risks, which would normally be excluded by a local insurer.

Influence of Solvency II

The increasing interest to consider EB exposure for (re)insurance captives has been influenced in part by Solvency II, where the rules provide capital credits for reinsurance companies to be diversified portfolios. The rules determine that life and non-life risks do not correlate, so, in effect, if both risks are assumed by a single reinsurer, the diversification of the captive's portfolio is increased, which results in lower capital requirements.

Reducing the captive's expense ratio

The inclusion of EB life programmes will provide captive owners with the opportunity to generate additional UWR profits. Such can be used to improve the financing efficiency of the local contracts as opposed to being a profit centre in its own right. This complete view together with one professional insurance fronter allows for a holistic captive balance sheet protection.

In addition, operational captive expenses will be reduced thanks to a consistent framework of:

- One (re)insurance agreement;
- Consistent content and delivery of claim and premium bordereaux;
- One counterparty credit risk view.

Finally, the captive (re)insurance of EB risks could also lead to a reduction of several local frictional costs.

Bringing together the non-life and the life world results in tangible values for HR teams. Thanks to the captive's inclusion of EB exposures, local coverage optimisation is possible. HR receives transparent risk reports and can benefit from attractive loss ratios. The latter can be used to initiate investments in order to improve the quality of risk, which in turn, results in more efficient local insurance pricing.

Furthermore, the European SII framework should incentivise captive owners to explore this path, provided that an operating non-life captive exists.

Insurance companies and captive fronters who are experienced in working with EB captive programs can provide the necessary advice in order to facilitate an efficient implementation for risk and HR management.

Corporate insurers operating globally will, therefore, most likely be faced with a continued demand from captive owners to keep their network infrastructure available for EB captive frontings.