



The challenges facing  
medium sized businesses  
that need to insure their  
assets overseas

## Key Insight

Our research showed that businesses insuring assets overseas start with asking a local contact who ‘knows the patch’ for a local insurance solution and grows to a point where a multinational solution looks more appealing. It is a journey from improvising around local solutions to reaching a Tipping Point where the opportunity cost of juggling the management of various local policies becomes too great and flexible multinational programmes start to be considered. Brokers are key for spotting this Tipping Point and proactively engaging with medium sized businesses about more centralised insurance solutions.

### The research

DVL Smith, an independent market research agency, conducted a data review, followed by detailed face-to-face and telephone discussions with businesses with a turnover of between £3m to £75m based in the UK with overseas assets in at least one overseas market. The research included those who were responsible for key risk management and/or insurance issues and who were involved in managing their businesses overseas operations. Businesses were interviewed from a wide range of sectors including manufacturing, finance, communications, professional services and IT. Brokers who deal with medium sized businesses with assets overseas were also interviewed.



### Fact File

#### A profile of businesses in the £3m to £75m turnover category with assets overseas

There is a great **diversity** in the 38,000 businesses in the UK with assets overseas. There were **differences in their age and heritage**. Some had been in the same market for over a hundred years, some were MBOs from the 1950s, others were new ventures already thinking about exit strategies.

Our market review showed that over one fifth of the UK's small and medium sized businesses report that they intend to expand overseas in the next two years – **it is an expanding market**. For many businesses international expansion happens early in the growth path. Over half of the companies on the recent Sunday Times HSBC International Track 100 League Table sought out opportunities abroad in their first, second or third year.

Some overseas expansion is planned but around six in ten of businesses in the medium sized category report that **overseas expansion decisions were unplanned – and opportunist** - they would respond to an approach by a potential overseas customer or ‘sense’ an opportunity.

### Going local is by reflex often the first port of call for businesses with assets overseas needing insurance

Notwithstanding their 'can do' mind-set, many reported a number of concerns and anxieties about not knowing the local on the ground situation.

For many their first reflex is to tap into the expertise of a local contact, not necessarily someone with insurance expertise, but a person who could check out what needs to be done.

The belief was that local people understand how things worked and that, at the beginning, this local involvement was all that was required to sort out what is appropriate.

### Businesses often engaged with the insurance agenda around the 'bright spots' and 'pain points' of their past experiences

Discussions about insurance started in a low key way. Insurance for the majority was a fairly low salience, almost hygiene factor, issue. But most became more animated when they could discuss a 'bright spot' - something where their insurance had worked out well.

Equally businesses became engaged when discussing 'pain points' - where insurance had gone less well, and they had learned through experience some key lessons. These 'Touch-Points' around which insurance was often discussed, included:

- Professional Indemnity claims and the US legal culture
- Product liability variations in Germany
- The definition of business interruption viz insurance claims
- Intellectual property theft
- Insuring against political instability
- Theft of goods and the status of the tax paid on the goods
- Protecting against hacking into IT systems and malicious data attacks
- Islamic interpretations of financial issues
- Local country variations of Employers' Liability insurance
- Understanding local compliance and regulatory issues

### Going international starts with a local insurance focus but there is a strong underlying interest in centrally managed multinational insurance arrangements that provide leverage and control – but awareness of these options is low

Once businesses have taken some initial actions and put a local solution in place, they then have the 'space' to think about alternative ways of handling their insurance. But there was comparatively low spontaneous awareness of managed multinational insurance arrangements. These businesses needed a prompt. However once these approaches were explained the benefits of the multinational approach began to attract attention.

### The perceived strengths of the managed multinational insurance solution

Once the multinational insurance solution has been put on the agenda, a number of perceived strengths were also intuitively raised.

- **Management control:** The senior team would have more control as it is easier to manage from the centre.
- **Peace of mind:** Insurances organised centrally were seen as less stressful than being stretched by trying to manage an increasing number of local scenarios on a remote basis.
- **Big is Beautiful:** Large was seen as better: having a relationship with one global supplier provides efficiencies in managing claims, together with providing value-for-money and economies of scale.
- **Smoother client/broker insurance communications:** Having one contact number, one account manager and one port of call for communications could work more efficiently than a multi-country approach.
- **Better quality control:** Standardisation but without losing any local sensitivity provided by the current local contact was seen as a big plus.
- **Global and local:** The local person would still be in place and would be able to deal with other business issues but not be overworked by dealing with the business's growing insurance portfolio.

### What businesses are anxious about when going into new overseas territories

#### Not knowing what you don't know is scary

Some had little local context and were anxious about not missing anything that they should be doing.

#### There are lots of 'idiosyncratic' compliance and local regulations to follow

The need to do everything by the book in different overseas countries to ensure that local legislation, building controls, fire regulations, licences, taxes, health and safety and other statutory procedures are followed was a major issue.

#### Failing to understand cultural nuances can have disastrous consequences

Being aware of different business approaches given religious, including Islamic, issues was important.

#### It is critical to do business in the right way!

For some there were concerns about playing in an arena where 'corruption' could be an issue. So knowing who to trust to ensure they were following the law and the ethics that would prevail in the UK was an issue.

#### Will I get paid on time... at all?

Issues about being paid were never far from the surface. It was reassuring if there was a local person who could track down the key people to ensure that the business would be paid.

### Businesses are wary of insurers, but 'love' their brokers – it is through brokers that they want to learn more

Businesses respect, but are not looking to build a relationship with, their insurers. Provided the insurer is big and well known with a reputable name, then this suffices. A bonus is if the insurer has some specialism in multinational insurance expertise and comes over as flexible.

Where the relationship does count is with brokers. The majority of the executives interviewed built a relationship of trust with their brokers. For many it was a personal relationship. The majority currently trusted the advice brokers were giving their business and, given the long standing relationship, felt they were not going to be 'ripped off'.

The executives interviewed wanted brokers to provide them with new insurance solutions that showed them that they were keeping abreast of the way their business was expanding - ensuring they were at the leading edge of developing their business overseas. Many businesses were surprised that their broker had not been more proactive in introducing multinational insurance solutions.

### Businesses who are expanding overseas reach a 'Tipping Point' where replacing the local solution with a managed multinational one becomes a serious contender

The first instinct of a smaller business is to cling to local control as a way of ameliorating anxieties about understanding the unknown. But over time concerns grow about becoming completely dependent on overseas representatives, where businesses need to rely 100% on what other people told them.

Thus, once the initial benefit of having control through a local contact gives way to a realisation that, even the most resourceful and go-getter manager can become stretched. The benefits of switching to a multinational programme that provides leverage and control starts to appeal.

Once businesses become aware of centrally managed and controlled multinational programmes and see that this can become viable for them they quickly switch into a different mind-set. Interest grows in working with a broker who can introduce leading edge multinational insurance solutions and help them take their business forward in a smooth and productive way to the next level.

## Three illustrations how medium sized businesses with overseas assets handle international expansion

### The Singapore office is the springboard to expansion in Asia and growth into South America is also on the agenda.

A manufacturer of precision security equipment with £30m turnover, with assets in Singapore, has its Finance Director looking after risk management and insurance. The business started using a trusted contact in Singapore to spearhead its international expansion. Now the company is in dialogue with a broker:

*'... our broker is on the ball and we trust them to tell us who the best providers are. ...'*

This company is now at the 'Tipping Point' of considering a multinational insurance solution:

*'In an ideal world it would be me having one insurance policy that is all here, that is centrally arranged - with me not having to get local people involved in everything.'*

The view was that the future expansion would benefit from having integrated control provided by a global insurer, but they would need: *'... a depth of knowledge of the places we want to expand into. This is the global insurance conversation I would like to have'.*

### A rapidly growing communications organisation that is planning to double its turnover over the next two years, through an aggressive international expansion strategy.

A £6.5 million turnover communications company is characterised by an informal approach to decision-making with a financial administrator looking after insurance and risk management. It has assets in US and Barbados, but has expansion plans for Hong Kong and Indonesia. Success has centred around being on top of the local situation.

*'The key for my perspective is in understanding local compliance, everything is just different everywhere. We need to ensure that we are doing everything by the book ... we are 100% relying on local people telling us the way to go and getting the local compliance and structure right'.*

But having to support such big and fast expansion has now put having one multinational insurance programme on the agenda.

*'Until it gets too much of a burden, we would probably stay with me handling it. We will be in four countries soon, so it is not so much of an issue. But when we go up to 15, where we can see the logic of a global solution'.*

### Understanding the local idiosyncrasies is a big worry for a building surveyor and architectural design company with assets in Malaysia.

An experienced office manager, who also looks after general operations and human resources, has major concerns about not understanding local cultural and business etiquette issues:

*'It is quite a headache because you have to look into all the local legislation and make sure you are compliant and that you are properly insured with legalities that might crop up in their jurisdiction...'*

The discussions about a multinational solution were well received, but with a proviso:

*'I am not that comfortable with a blanket policy unless it covers all the nuances, it is not quite the right word, but idiosyncrasies, of regions and products ...'*

## AIG Viewpoint

**The better informed we are and the greater of understanding of something, the more deliberate our decision making process becomes. DVL Smith's research confirms this is exactly the case when determining the insurance purchase in particular when it comes to a multinational programme. The final decision could be not to purchase a multinational programme or to only include territories where there are major operations; however, what is important to your clients is the opportunity to go through the process with you.**

In a cost driven environment, multinational programmes can bring the benefit of bulk buying, ensure consistency in terms of what risks are transferred and retained and allow for a consistent philosophy to be implemented across an international organisation. It's a one stop shop concept involving a master programme with underlying local insurance policies.

Broker's hold the key to the client relationship. As an insurer, our role is to work with you to ensure that you are comfortable in broaching the subject of a multinational programme. We can do this through individual discussion, training and a client/prospect visits.

Adherence to local and regulatory issues is of course a concern and this is not compromised by a multinational insurance programme. Our programme design tool will allow you to discuss this along with several other factors, for example, claims, taxes, local certification to then make an informed decision about the level of local protection and how this fits with the multinational programme intent. Multinational programmes can encompass all major lines of business including property, liability, D&O, professional indemnity, environmental and A&H, to name a few.



A local broker presence is not always necessary (and where one is either through preference or regulation, this will not prevent the process moving forward); however, a credible local insurance provider who is willing to invest in a local relationship plays a pivotal role.

As the research showed, many clients were not really aware of the possibility for a multinational programme and so were not even able to contemplate the benefits that this approach brings. Knowledge and expertise in this subject should be a part of every broker's armoury and can also be very effective tool to acquire new business.

### What to know more?

**For more information about our research with medium sized businesses with assets overseas visit:**  
**[www.aig.co.uk/multinationalinsights](http://www.aig.co.uk/multinationalinsights)**

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