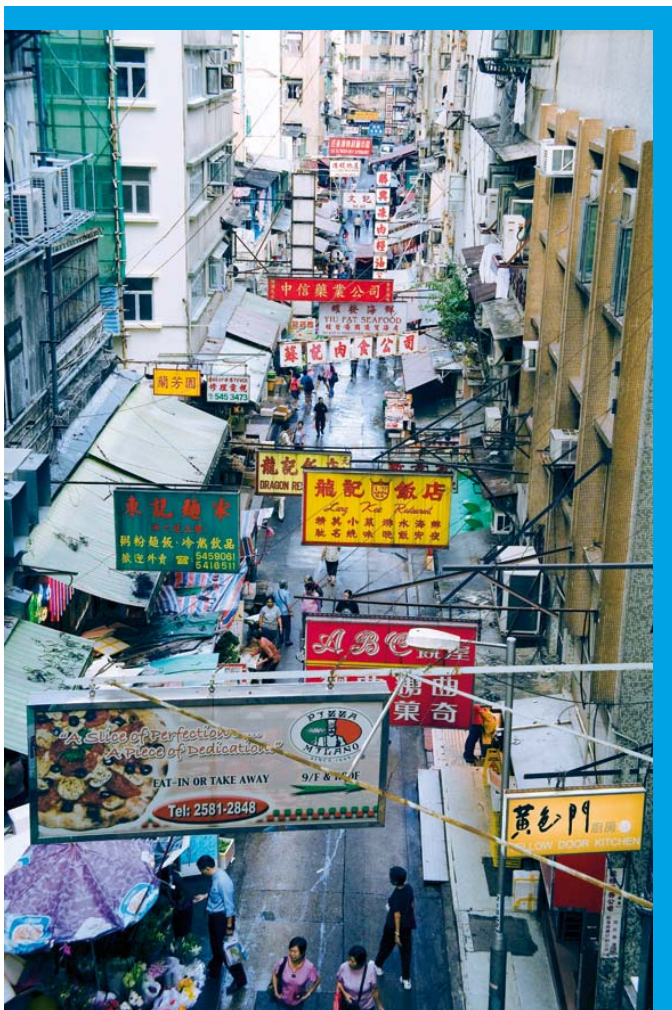


Low awareness of
multinational programmes
does not equal a lack of
interest

This is the second in the series of AIG Multinational Insights, based on commissioned research conducted by DVL Smith, an independent market research agency, amongst businesses with assets overseas in the £3m to £75m turnover band, and also brokers who deal with businesses in this category.

We have explored the way businesses start by making maximum use of local contacts to set up local insurance solutions, but reach a point in their evolution where overseeing lots of different local insurance scenarios starts to burn up their valuable management time. So these are businesses that reach a point where they start keeping a 'watching brief' on the strengths and limitations of multinational insurance solutions. In this Business Update we review some perceived strengths, and concerns, about a multinational insurance programme, and explore the vital role played by the broker in explaining this option.



Key insights:

Awareness of multinational insurance programmes is low, notwithstanding the importance medium sized businesses place on having more leverage and central control, after initially placing the emphasis on a local solution.

Medium sized businesses could intuitively see the advantages of a multinational programme before its features were outlined. But the executives spoken to wanted reassurance that the centralized model would be flexible enough to accommodate their fluid business expansion plans and would allow them to stay close to their original local network colleagues. Interestingly, the brokers spoken to in the research were surprised that any overtures they might make to medium sized businesses about multinational insurance programmes would be very much welcomed.

Businesses have an initial 'reflex' to place the initial focus on local insurance solutions because it is the way to instantly take the anxiety out of the international expansion. But this was accompanied by low awareness of centrally managed multinational insurance solutions

However, once raised, the benefits of standardization and the central control of insurance policies across their business was instinctively seen as attractive.

In our discussion with Lucy her response was quite typical of medium sized business's view on multi country insurance solutions:

Lucy, as Head of Facilities at a Consultancy business, is responsible for the firm's expansion into US, Switzerland and Germany. She told us that *'Each market is reviewed in isolation . . . Each area is looked at individually'*.

She explained that getting the smallest details right was often the most challenging, highlighting, like many of those we spoke to, the value of having *'Local experts providing advice'*.

But the way her business was informed about ways of handling insurance – including learning about a multinational programme that would work for medium sized businesses – was pretty haphazard.

Lucy reported talking to her broker about getting the best insurance solution, but this centred largely around optimizing the local solution, rather than reviewing multicountry insurance solutions. *'We receive updates, like a Newsletter sort of thing – it's monthly. . . Some articles are quite useful. . . I just skip through'*.

Businesses, such as the one Lucy works for, were on reflection, surprised that multinational programmes were not being more actively promoted to medium sized businesses by brokers.

There was little by way of more focussed and impactful communications about multinational programmes to build Lucy's overall awareness of the options now available. A concise review of the multinational options would have been of great interest to Lucy.

The Multinational Insurance Model – once explained – was intuitively seen as attractive

As we have outlined, once the idea of a multinational insurance programme being available to medium sized businesses was explained, most could see how the central model would help them develop their business with peace of mind. They could instantly see how the business would benefit from professionally organised insurance from a central point providing leveraged economics of scale.

For most the model was seen as more efficient than relying on numerous scattered locally sensitive, but increasingly difficult to manage, local solutions. So there was a strong underlying fundamental interest in multinational programmes that would continue to offer local sensitivity and tap into their local network, but also provide the leverage and control of benefits of a centrally organised insurance solution. But the businesses spoken to in the research were quite clear that it would be important to provide concrete reassurances that the multinational model will deliver its promises.

Harry, Financial Controller at a telecommunications business with a manufacturing operation in the Far East and agencies throughout the world, discussed some of the challenges of managing insurance issues on a local basis.

Harry highlighted claims issues, where his personal criteria was: *'I need to get back information the same day—that is the kind of service I'm looking for'*. He pointed out that *'If you have a company who can give you that level of service, and provide this across the globe, that would be attractive'*, adding *'The way I understand it, there would be an umbrella, with local policies. . . If you can do it all in one go, it makes it easier and I would want that'*.

Harry's story reminds us of the way the service standards delivered by a central multinational insurance solution will be judged against quite demanding performance criteria.

So, the multinational insurance solution is a strong concept but it must deliver – businesses want flexibility: they do not want a rigid *'one size must fit all'* local scenario solution.

The multinational solution was intuitively and instinctively appealing. Businesses however made the point that they wanted a solution that would be flexible, and bespoke around a core offer which addressed their exposures only in the countries they did business in.

They do not want to adhere to rigid, dysfunctional, procedures that would accommodate the large insurer, but not respect the sensitivity and special features of their local business.

Joe takes up the story at his Information and Communications business. *'It sounds a great thing in theory but with multi country the challenge is making it easy for the local countries to understand...you have to know how to provide that local service under a group umbrella solution'*.

This was a theme echoed by Ted, the Communications and Technology Manager at an entertainment business. He explained that for his firm one multinational solution must be tailored to suit the individual needs of his company, pointing out: *'We don't need insurance in America so I don't want to be paying for something that covers the whole world, only the parts we are involved with. We have got particular business risks and we want people to understand that.'*

The good news with regard to promoting the multinational solution was that, although there were potential 'pain points' on which the people we spoke to wanted reassurance, once these were addressed there was strong support for the centralised model.

The multinational solution must also deliver its promise to save valuable management time.

Businesses wanted reassurance that by having a centrally controlled insurance approach, this would actually reduce their management time. They needed to make sure that the model would allow them to give up the 'micro management' of the local businesses, whilst not introducing another layer of bureaucracy.

Henry, who works at a manufacturing company, made the point that he was concerned that insurance companies may not have the systems in place to deliver a truly centralised model, particularly over claims: '*. . . I'm not confident yet that the insurers centrally can say to us that, at the centre, they know what is going on*', adding '*I'm surprised in the modern day and age that it takes them so long to put documents together*'. His view was that, if you opted for a multinational solution, then the management information should be ready at the touch of a button.

In the research, the people spoken to often spelt out their frustrations with companies that introduced time consuming bureaucratic practices. For the multinational insurance solution to succeed it will need to be smoothly and efficiently managed.

The multinational solution must continue to respect and be sensitive to the local start-up situation

A key condition of success lies in demonstrating in close detail how the multinational solution will provide each business with the same local sensitivity they now get from their local person on the ground, whilst also showing sensitivity to transitioning from their initial local partner agreement.

Businesses would entertain a multinational insurance solution provided it did not upset their local trusted contact. This was a particular concern because these contacts often deal with aspects of their business outside of insurance, often being their marketing eyes and ears of the business on the ground. They did not want to throw this away.

Joan, a Manager at a building business, explained: '*My local insurance contact remains a pivotal part of the business network, irrespective of the insurance going into its global arrangement.*' She pointed out that she could see the benefits of centralised systems, but she was concerned that 'local cultural knowledge' might not find its way through big international organisations.

To her, there remained strong ties to '*continuing to use the local office*'. These were the guys with whom she had built up a business relationship and there was genuine worry about '*throwing it all away with a blanket policy*'.

The people we spoke to were quick to point up the importance of making the segue to a multinational solution, whilst respecting their initial local contacts, pointing out that business is a '*people business*'.

Providing reassurance about how, with a multinational solution, day to day operational details will be handled is critical

Providing reassurance about *precisely* how the multinational arrangement would work is vital. There is an appetite for knowing what kind of central management information they would receive under this arrangement.

So the benefits of the centrally operated model need to be carefully spelled out, including explaining how the solution would provide value for money.

One big ticket operational issue is explaining exactly how claims will be handled under the multinational model. For many, the *devil is in the detail*, as an Office Administrator working for an international education provider highlighted: '*if there was a flood (with the global solution) who would they contact? Surely that must be a local tradesman, or would they have to wait five hours (because of international time differences) to get through?*'

It is clear that any multinational insurance solution must be designed and delivered in a way that will be convincing to those responsible for managing crucial day-to-day operational detail.

The 'pain points' experienced in the past set the agenda for providing reassurance

A lot of businesses want to discuss the insurance situation around 'pain points' that they have experienced on their journey through different issues over the years. These set the agenda for providing reassurance about the multinational solution.

There was a varied list of top-of-mind issues including: professional indemnity claims; product liability; business interruption; intellectual property theft; political instability; theft of goods and the tax implications; protecting IT systems and malicious data attacks; Islamic financial issues; variations in employers' liability insurance; and understanding local compliance and regulatory issues.



A 'can-do' spirit and flexibility from the insurer is key to success

We have seen that medium sized business owners and managers are entrepreneurial and enterprising. Businesses are looking for a 'can do' attitude from their global insurance partner that matches their own style. They expect the person providing the multinational insurance solution to be as pragmatic and flexible as they are. So getting the personal chemistry right is also important. Any sense of bureaucracy creeping into the multinational arrangement will kill their interest.

As Jim, Financial Director at a manufacturing business, explained: *'Insurance is all about trust'* pointing out that *'the personal relationship was the most important'*. He could see the strength of the multinational approach: *'In an ideal world it would be me having one set of insurance policies all here'*. But his point of view – concern – was the system was only as good as the individual you know within it, adding *'If you get passed down or along for someone else, it can all go wrong'*.

Clearly, matching the aspiring entrepreneurial spirit of medium sized businesses is critical.

There is an appetite for updates on critical local regulatory and compliance issues

Demonstrating how the multinational solution would fix these key business critical issues is key to building belief in the efficiency of the centralised approach. There is a massive interest in punchy updates from brokers/insurers explaining what precisely needs to be done in each country in an impactful, concise, easy-to-understand way.

In the next multinational insights we look at the attitudes of medium sized businesses towards working with a broker to help them grow their businesses internationally. We put the spotlight on the *Tipping Point* at which businesses realise that their local insurance solution perhaps needs to give way to a centralised approach.

AIG Viewpoint

The need for a multinational programme is very often realised once a company understands it's overall insurance premium spend: the sum of the local premiums is often greater than that of the multinational programme. Until the switch is made there is the opportunity cost of time required to oversee a multitude of stand-alone policies and factors such as policy language may prevent a complete review of insurances that are purchased on a purely local basis.

Multinational programmes bring a vast array of benefits of which cost and better central control are just two.

Programme tailoring is also possible with 'tweaks' in the local policies that more accurately reflect the needs of local entities, for example differing limits or deductibles.

Choosing the correct provider is critical and is particularly evidenced when a claim occurs. An inability to meet expectations here will have consequences for insurer and broker. In certain circumstances, the Japanese quake being a recent example, the approach and culture of a true multinational insurance provider can ensure a claims service that potentially exceeds a purely local market response.

Clients may receive 'push back' from local operations when the decision to move to a multinational programme is made. This happens in all organisations from the smallest to largest. This is where a strong local operation of the insurer can smooth the process. A local policy that is part of a multinational programme is a local policy regardless and cementing a local relationship will be just as important whether the local policy is part of a multinational programme or otherwise. All of the AIG companies that issue local policies as part of a multinational programme are fully functional property and liability insurance providers in their own right and operate as such in their local markets. Of our 90 plus owned offices, 70% have been active in that local market for over 25 years.

The central purchasers of multinational programmes and their brokers receive regular multinational specific updates from us. This includes forthcoming changes in local legislation, insight into key concerns and topics as well as access to the territorial information that we possess across our network.

There is no getting away from the fact that multinational programmes are more complex and take more time to build than an indigenous policy covering only the UK located risk. However, despite the increased investment, experience shows that the benefits outweigh this investment from a client perspective ... very few clients 'dissolve' a multinational programme once in place. For insurers and brokers alike, greater access to decision makers and higher retention rates are some of the benefits derived from our own investment in the process.

For more information about our research with medium sized businesses with assets overseas visit:
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