



Arrival at a Tipping Point

This is the third of the series of AIG Multinational Insights based on research commissioned from DVL Smith, an independent market agency, with businesses in the £3 to £75 million turnover band with assets overseas. We continue the story of how medium sized businesses, as they expand internationally, use their ingenuity to tease out local contacts to help source an insurance solution and, as they grow, become prepared to consider a central multinational insurance programme.

We now look at the way businesses arrive at a Tipping Point where they want to talk with the broker – someone they trust - to help them take the next step to obtaining a multinational solution offering central control and leverage.



Key insights:

The idea of there being a 'Tipping Point' where medium sized businesses with assets overseas are prepared to listen to the case for switching away from having a local insurance solution to having a more central multinational programme that helps them save management time, was a powerful research finding.

This tells us that if brokers keep a 'watching brief' on target businesses – staying in touch with their needs as they expand internationally – they will be well placed to identify the optimum time to develop a dialogue about the way in which multinational programmes meet their customer's local needs, whilst also offering certain leverage and economy of scale advantages. It is the broker that medium sized businesses trust the most and that there is a willingness to listen to brokers. Indeed many businesses were surprised that brokers were not more proactive in outlining different international risk management options for their scale of business.

Multinational insurance solutions gradually start to be considered as businesses grow.

Most of those spoken to were very resourceful in getting local based insurance cover via local trusted contacts.

This initially lowered their anxiety about complying with all the local regulations. But the businesses then could see a point where they might begin to worry about whether they could continue juggling lots of local insurance solutions. At this point, when a multinational solution is explained, businesses intuitively begin to see the merits of this approach.

Richard, a financial specialist, at a thriving telecommunications business, explained his current focus on understanding the local situation, but likely later global thinking: *'We are obsessed with getting the local compliance right - the structures and that kind of thing. We are 100% relying on what local people tell us'.*

But he pointed out that he could see the logic of the centralized multinational approach, adding that: *'I can see that as we get to a certain size - maybe 10 countries - then operating locally could be too much of a burden. I could see us moving out to this centralised model'.*

There seem to be two voices going on in the heads of people running businesses that are beginning to expand internationally. One voice is saying that, as a fast moving entrepreneurial business, they need a quick local fix that is uncomplicated and avoids layers of perceived bureaucracy. But the other voice, is saying that if the business is to go to the next level then they need to learn to delegate and apply leverage which deep down they know is the key to the success of larger business operations.

There is a Tipping Point when a business is ready to discuss multinational insurance options that reduce management time and save them handling lots of different local insurance scenarios

Our research showed that there is often a specific *Tipping Point* where it becomes clear to a business that it needs to move on from locally arranged insurance provisions to a multinational solution if it is to grow.

So for many it was a case of keeping a ‘watching brief’ on the point at which they could be *ready for a multinational solution*. A typical comment was: *‘Certainly if we get to the point next year, where we have even more of an international presence then a more centralised approach would be useful – so keep me posted’*.

The identification of the Tipping Point concept was a key insight because it tells us that if the moment is chosen correctly, businesses will be receptive to a compelling argument presented by a broker who can touch a nerve with businesses by reminding them that to grow there is a point where they need to think like a bigger business, which includes having leverage and more central ‘command and control’ than they may have been used to in the past.

Brokers are the key to introducing - at the Tipping Point - the multinational concept to businesses

The businesses spoken to were often surprised by the fact that their broker was not more proactive in outlining the options now open to medium sized businesses expanding internationally. This was all the more surprising when we consider that brokers were much more ‘loved’ than insurance companies. Many of those we spoke to highlighted the long standing, sometimes personal, relationship they had enjoyed with their broker.

Bob, Financial Controller at a communications business, pointed out that his relationship with his broker was stronger than with his insurance company, seeing the broker relationship as being *‘all about trust’*. He explained: *‘I like to stay with the existing broker... I have a very good relationship with them. . . I know that if I am talking to my broker, it is as good as talking to my insurance company directly’*.

The executives spoken to highlighted the fact that they wanted to work with a partner who would outline in an even handed and transparent way the advantages and disadvantages of a multinational programme.

A successful consumer/broker relationship pivoted around trust, integrity, honesty and authenticity. Brokers who could clearly map out the pros and cons of multinational solutions would seem to be in high demand.

Importantly the research was telling us that these businesses would welcome – when the time was right – proactivity from brokers in taking the multinational case to medium sized businesses with assets overseas.



Insurance companies need to be reputable and global

As explained, brokers are key to the relationship with medium sized businesses. Insurance companies stood in the background, being seen in a ‘neutral’ way.

For the majority, an insurance company would tick all their boxes provided it was a credible international insurer with a solid reputation, operating on a global scale.

‘When it comes to the insurance company, it is not something I have been worried about in the past to be perfectly honest... They are usually backed by other people... So it was not a huge factor ... Provided they are a very big company, well established with a big brand name... Then I’m safe taking them on board.’

With brokers in pole position, insurance companies are evaluated in terms of their solidarity, scale and overall trustworthiness– plus being able to deliver multinational solutions in a flexible way.

There are three tell-tale signs in spotting the Tipping Point where local solutions give way to wanting to hear more about multinational options

Opportunity cost: There is a point where businesses begin to sense that insurance is now an issue that should be delegated and managed through a multinational programme, so they can focus on other business activities.

A perceived slide in professionalism and effectiveness:

There is a realisation that as managers they are no longer giving each local situation sufficient attention and things are beginning to slip.

Too much dependency on the local contacts: A feeling begins to surface that the business has become too dependent on the insurance that has been arranged at a local level. They begin to feel the need for more control over key issues.

The skill would appear to be for brokers who we have seen are the trusted ‘go to’ partner in this journey towards a multinational solution, to set up a conversation that puts on the agenda issues such as the optimum use of their management time, a possible over dependency on local contacts and concerns about staying on top of the local insurance model.

What brokers told us about medium sized businesses with assets overseas

As part of the research we had discussions with brokers who did business with medium sized businesses with assets overseas. We explored their views on the idea of AIG being more proactive in providing medium sized businesses with multinational programmes that these businesses may previously have thought were only available to large multinationals.

This confirmed that brokers could see the wisdom of targeting on this market sector. As one broker said *'It is of interest to us to find that someone else has looked into what makes these organisations tick, what makes them want to expand, and how they go about expansion – that's the interesting part to us because we can tap into that. We know at what point we can get involved and how we get involved. Unless you know how this works, you don't know how you are going to interact with it. So for us there is lots of interest'*.

One particular issue where feedback from brokers has helped in this focus on medium sized business centred on their need to have clarity around the scale of businesses that would benefit from a multinational programme. Some pointed out the varying definitions that exist about what constitutes a medium sized business and a need for clarity in the targeting of the marketing efforts. *'We do target SMEs but they have to be of a certain size to appear on our radar screen ... you could categorise them by turnover or by staff ... we don't have a specific definition, but we are probably looking at a business turning over five million.'*

Proactivity from brokers will pay dividends

The trust brokers enjoy with businesses opens the door to the dialogue about multinational solutions. Being proactive and mapped out in an impartial way, a multinational programme that saves time and offers greater efficiencies will pay dividends. Clients are looking for brokers who will show some passion in helping them expand the business.

It is all about building authentic, genuine and trustworthy relationships. Businesses are looking for the broker to take some of the complexity out of expanding on a multi country basis by explaining in Plain English how multinational insurance solutions will work to their advantage. They are looking for a totally transparent summary of the pros and cons of different approaches.

Top tips for brokers in engaging with medium sized businesses with assets overseas

- Medium sized businesses pride themselves on an entrepreneurial style that centres on not getting tied up with unnecessary bureaucracy, but instead finding creative, 'lean' solutions – hence the first reflex of going to a local contact. However as we have seen these aspirational businesses start thinking and behaving like a bigger business.
- This naturally leads them towards being receptive to the idea of a multinational programme. But the transitioning of these businesses to a sensible multinational solution needs to be accompanied by constant reinforcement of the bespoke and flexible nature of the offer. They do not want to feel that they are being forced to accept a 'one size fits all solution'.
- Businesses tend to discuss insurance around earlier 'pain points' and will tell stories of things that never worked out because of a failure to understand the details. So being able to tease out the 'pain points' for a particular business and provide reassuring accounts of how these will not occur under a multinational programme is critical.

In short, outlining the high level benefits of the multinational programme need to be underpinned by close attention to detail in explaining the operational mechanics of how this will work for each business. There is a massive appetite for concise, punchy and impactful updates that remind the business - for countries that are on its radar - about the latest changes in compliance and other regulations. For busy entrepreneurs it is reassuring to know they have at their fingertips the latest situation. This provides great marketing opportunities for brokers working with their insurer.

AIG Viewpoint

Each business has its own unique ‘tipping point’ that can be a combination of several different factors. Don’t be put off by a “first reflex” to stay local, a broker’s role is to help clients assess this. It is essential that the decision to move to a multinational programme is an informed decision and very likely it will require the support of the company Board and the broker is a key enabler to this process.

Clients should be examining all opportunities and methodologies of risk mitigation even if not ultimately adopted.

The tipping point comes not only as insurance purchasers gain a better understanding of the benefits of a multinational programme but also as they become aware of the potential pitfalls. Availability of certain covers will depend on the local market and perils that UK buyers might automatically assume are incorporated into a good local standard wording may not be. Australian flood is a good example of this - for coverage to be in force the peril must specifically be requested by the buyer; or market practice might simply be not to purchase earthquake or tsunami protection as these perils are sometimes separate from a standard property policy e.g. Indonesia. Market practice also applies in respect of limits purchased. Very often a foreign local entity may not be purchasing sufficient limits to satisfy the central risk manager’s appetite. Unfortunately, these things often only come to light in the event of a claim.

Partnership, preparation and communication are the key ingredients for success and this ethos needs to continue post-inception and from renewal to renewal if the full benefits are to be realised. The central insurance purchaser’s control span plays a major role in this as well as the ability of the broker and insurer to provide support both centrally and locally. 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.

A broker is in a unique position to explore the potential suitability of a multinational programme with their client and to address potentially sensitive topics such as their pain points, worldwide insurance premium spend, and criticality of a business unit to the company’s overall balance sheet. Also, the ability to give the central purchaser the confidence to ask some critical probing questions internally, for example about the extent of coverage purchased locally.

Finally, don’t be put off if you don’t have an extended global network. Insurers can work with and without local brokers and this is often down to client preference. Worldwide networks exist and an established multinational provider should readily provide you with local contacts should this be necessary.

For more information about our research with medium sized businesses with assets overseas visit:
www.aig.co.uk/multinationalinsights

www.aig.com

BELFAST

Forsyth House
Cromac Square
Belfast BT2 8LA
Tel: 02890 726002
Fax: 02890 726085

BIRMINGHAM

Embassy House
60 Church Street
Birmingham B3 2DJ
Tel: 0121 236 9471
Fax: 0121 233 3597

BRISTOL

Ten Victoria Street
Bristol BS1 6BN
Tel: 0117 329 1065
Fax: 0117 906 9874

CHELMSFORD

Victoria House, 4th Floor
Victoria Road
Chelmsford, Essex CM1 1JR
Tel: 01245 707 400
Fax: 01245 707 501

CROYDON

2-8 Altyre Road
Croydon, Surrey CR9 2LG
Tel: 020 8681 2556
Fax: 020 8680 7158

GLASGOW

Centenary House
69 Wellington Street
Glasgow G2 6HJ
Tel: 0141 303 4400
Fax: 0141 303 4440

LEEDS

5th Floor Gallery House
123-131 The Headrow
Leeds LS1 5RD
Tel: 0113 242 1177
Fax: 0113 242 1746

LONDON

58 Fenchurch Street
London EC3M 4AB
Tel: 020 7954 7000
Fax: 020 7954 7001

MANCHESTER

4th Floor, 201 Deansgate
Manchester M3 3NW
Tel: 0161 832 8521
Fax: 0161 832 0149

NEWCASTLE

Suite 442 4th Floor
Collingwood House
38 Collingwood Street,
Newcastle upon Tyne
NE1 1JF
Tel: 0191 206 4091
Fax: 0191 206 4199

READING

Soane Point
6-8 Market Place
Reading RG1 2EF
Tel: 0118 964 2600

American International Group, Inc. (AIG) is a leading international insurance organisation serving customers in more than 130 countries and jurisdictions. AIG companies serve commercial, institutional, and individual customers through one of the most extensive worldwide property-casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

AIG is the marketing name for the worldwide property-casualty, life and retirement, and general insurance operations of American International Group, Inc. For additional information, please visit our website at www.aig.com. Products and services are written or provided by subsidiaries or affiliates of American International Group, Inc. In Europe, the principal insurance provider is AIG Europe Limited. This material is for information purposes. Not all products and services are available in every jurisdiction, and insurance coverage is governed by the actual terms & conditions of insurance set out in the policy or in the insurance contract. Certain products and services may be provided by independent third parties. Insurance products may be distributed through affiliated or unaffiliated entities. [Certain property-casualty coverages may be provided by a surplus lines insurer. Surplus lines insurers do not generally participate in state guaranty funds and insureds are therefore not protected by such funds.]

Within the UK, AIG Europe Limited is one of the largest providers of general insurance. With offices throughout the country, we insure many of the UK's top businesses, thousands of mid sized and smaller companies, as well as many public sector organisations and millions of individuals. For additional information please visit our website at www.aig.com.

AIG Europe Limited is authorised and regulated by the Financial Services Authority (FSA number 202628). This information can be checked by visiting the FSA website (www.fsa.gov.uk/Pages/register). Registered in England: company number 1486260. Registered address: The AIG Building, 58 Fenchurch Street, London, EC3M 4AB.



Bring on tomorrow