EMPLOYEE BENEFITS REPORT 2017

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Rob Brown of Zurich examines how to gain risk insights into employee benefits through a captive

When companies decide to include employee benefit risks into their captive they have typically invested the time up-front to understand the benefits and limitations, both technically and interpersonally, which delivers benefits in terms of a more efficient and successful employee benefits implementation process. No one company is the same as another, and each requires its own solution based on a multitude of complex factors including risk appetite, geographic spread, desire for savings or management information, which can only be determined through a detailed analysis of its tax, legal, regulatory, employee benefits and financial situation.

Following the implementation process, a captive can then be used as a strategic tool to manage risk and benefit costs proactively. Given the right set-up a captive can provide insight through improved claims data to analyse, identify and address key cost drivers.

Learnings and considerations: Stakeholders involved during implementation phase

Experience shows that during the preparation phase of the implementation of a captive programme, a large and seemingly ever increasing number of stakeholders are involved and resources have to be made available in order to manage stakeholders and keep focused on the agreed approach.

Consistent top management support as well as a robust and focused risk management culture are key for a successful set-up and management of a captive. Other challenges on the way to a successful implementation are, for example, the selection of the right fronting network with which to partner to ensure the right cultural, geographical and financial fit, existing commercial relationships that have to be reviewed or local subsidiaries that have to adhere to the programme.

Robert Brown

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Risk managers and human resources functions are working closer together, and those new collaborations lead to new working models. The collaborations work well when both sides see where they add value, and where they contribute to the process and joint objective but with a clear separation of focus for risk managers and human resources functions on employee benefits. For example, human resources functions and employee benefits managers are being more and more involved in the risk financing decisions, or even invited onto the board of the captive.

Another successful, collaborative model is where risk managers and human resources professionals play to their strengths insomuch as risk managers will largely be responsible the insurance financing decisions either on their own or partnering with colleagues in local procurement teams. Human resources professionals will ensure that the most appropriate local insurance fronting vendor is selected from their panel of local network partners. Their human resources colleagues then have more time to focus on strategy decisions and benefit design to ensure that benefits are benchmarked to required levels, rather than concerning themselves with hurdles such as whether local profit share can remain in contracts, or should they change from monthly payments to annual to improve the captive's cash flow position etc. Simply put, in a successful collaboration, human resources will focus on benefit design strategy and the risk manager will focus on the benefit finance decisions.

Historically it was common that both functions (sometimes "camps"!) were concerned with losing control over one or more elements of their own, but in reality this is rarely the case and the opposite is true. With better finance decisions, cost savings will avail themselves and provide the financial resources to implement more of the strategy that they want to put in place e.g. one of our customers is undertaking a reinvestment of captive profits in preventative health and wellness initiatives, which could well deliver improved claim experience leading to enhanced captive profits in the future.

A lesson learned from incorporating employee benefits risks within captives is to involve procurement and other vendor approval stakeholders e.g. IT, data security teams from the very beginning as an equal partner in the process and to set up clear guidelines, rules of engagement, and to outline the fundamental objective of the captive e.g. to financially breakeven, make a small profit for reinvestment in a cancer health screening programme, for instance. In doing so, customers are much more likely to reap the rewards from a successful programme rather than wasting time waging unnecessary internal turf wars. Roles and responsibilities need to be agreed between the various stakeholders' e.g. local subsidiaries, broker/consultant, human resources functions, risk management/finance, local network insurance partner, etc.

As touched upon, other increasingly important stakeholders are IT and vendor management teams who, understandably, demand certain compliance in terms of data security protections. It is of great value to work with local network partners around the world that are approved suppliers and who fulfil certain criteria and so avoiding to tap into problems at a later stage. For example, a local insurance network partner might not be approved for a certain implementation due to insufficient IT security and if this due diligence isn't undertaken upfront, it could be up to two years until a contract comes up for consideration by the contract, this discovery is made and the whole process is unnecessarily derailed at the eleventh hour.

Effective stakeholder and change management starts by providing clarity of the rationale for a captive programme and by addressing the impact on stakeholders and local subsidiaries. Concerns need to be addressed and roles, realistic timelines and working processes confirmed and then genuinely supported and championed by a suitably influential executive sponsor.

Learnings and considerations: Why a captive should be set up in a certain way – to gain risk insights during management phase

Depending on a company's objectives, a captive can either be run as a profit centre, where cost efficiency and savings are the major drivers but it can also be used as a risk management tool, where control is the primary focus and acts as a platform for deep, regular and actionable risk insights. Usually it is a blend of both as the cost and control argument needs to be aligned to ensure that the longer term costs or risk to the group as a whole.

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Quality of data

A captive receives regular reports (usually on a quarterly basis) showing premiums and claims development over the year and on a year-on-year basis. The quality of data depends heavily on the local subsidiaries and also the quality and reliability of the global benefits network partner's bordereau and other supplemental reports e.g. disability or medical trend analysis.

Another issue that arises with data is data anonymization. This is for example relevant for the earlier point concerning whether a local network insurance partner complies with certain data security standards and whether it can then be appointed. This data privacy technique (anonymization) seeks to protect private or sensitive data by deleting or encrypting personally identifiable information from a database. Data anonymization is done for the purpose of protecting an individual's or company's private and/or sensitive data while maintaining the integrity of the data gathered and shared. IT functions, legal, compliance and procurement share a vital interest in this matter. This is a highly complex subject and there is much work to be done in this area.

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Summary

There is a clear trend of corporations increasingly reinsuring employee benefits to captives, as they face rising employee benefits costs, compounding at some 15% in some countries, and demands for reliable and actionable management information. As a result of new challenges, risk managers, human resources functions and employee benefits managers are working closer together to not only add value to the cost side but also to improve a company's reputation and to become an employer of choice. Experience shows that broader stakeholder engagement (human resources functions, procurement, legal and compliance, IT, etc.) early in the preparation process sets it up for long-term success.

In order to bring the best out of a captive, good planning, guidelines and a clear implementation process are key. Furthermore a captive can become a great tool to get relevant claims data allowing companies to react relatively proactively, albeit still retrospectively, in order to manage benefit costs more efficiently, to mitigate risk and to bring costs down by addressing key cost drivers.


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