

Multinational Customer Needs— Are They Really Being Met?

**What You as a Multinational Company Should Demand of Your Insurance Broker;
What You as Insurance Broker Should Offer Your Multinational Customers**

by Douglas B. Fay



Douglas B. Fay is president of Globex International Group, an international risk management firm. He graduated Bucknell University and Universitat Heidelberg in 1979 and began his international insurance career with Chubb and Sons in New Jersey as an international trainee. He held many executive positions with Chubb, AIU, A&A, and Arkwright/Hobbs Group both in Europe and the United States before leaving Hobbs in 1994 to form Globex International.

Today Globex International via its Partner Brokers collectively is the third largest risk management organization in the world. Please visit the Globex web site at www.globexintl.com.

Fay can be reached at (203) 256-1475 or fay@globexintl.com

Stats and Facts

In the mid 1980s, the average U.S.-based multinational (having operations in more than one country outside the United States) generated on average 15 percent of its annual revenue from sales/operations outside the United States. Today the average U.S. based multinational generates approximately 45 percent of its annual revenue from outside the United States.

In the early '80s, the majority of companies operating overseas were Fortune 1,000. These large companies took a very methodical and time-consuming approach toward expanding overseas. Initially they exported their products into overseas markets. This activity was followed by the establishment of distribution centers in key growth areas outside the United States and eventually these companies established factories, production facilities, offices, and hired local employees. For most Fortune 1,000 companies, this process took many, many years.

Today there are some 65,000+ multinational companies worldwide. Here in the United States it is estimated that there are some 20,000+ multinational companies—far more than those companies making up the Fortune 1,000 or even Fortune 5,000. The “middle market”—defined by many in many ways—is the fastest growing segment of business that is growing overseas. Percentage growth wise, the “middle market” far exceeds the international growth of the Fortune 5,000. This is primarily due to a truly global economy, communications technology, and the ability to acquire versus grow an international capability! No longer do companies need to follow in the footsteps of the previous Fortune 1,000. Now companies of all sizes, from

the INC 500 to the Fortune 50, can gain immediate access to international markets via an acquisition.

International growth and expansion are also occurring at a rapid pace among emerging multinationals or those with limited physical assets overseas. Statistics show that emerging multinationals are made up primarily of companies that export and import.

In the '80s there were several thousand companies that imported and exported goods. Today the majority of those companies have physical assets overseas and can be considered small to “middle-market” multinationals. As of last year, there were some 900,000 importers and exporters here in the United States!

The world is truly becoming smaller; more and more companies are operating outside the United States **and** this growth overseas is virtually across any and all industries or businesses.

A key statistic that is propelling this growth and that will ensure that this trend continues for a long, long time is the fact that 95 percent of the world's population exists **outside** the United States.

What do all these statistics mean?

- When a U.S.-based company dips its toes into international waters, it is soon up to its knees and torsos in international commerce.
- The majority of the growth in the number of new multinational companies is in the “middle market” and these companies are expanding internationally at a rate that far exceeds larger multinational companies.

- The ongoing growth in “middle-market” business is being fueled by an ever-growing increase in the number of companies importing and exporting or “emerging multinationals”
- This expansion overseas is happening in all industries and in all segments of the economy.

The Issue at Hand

If we accept the fact that companies of all sizes and in most industries either are operating overseas or will be operating overseas, one can assume that from a risk management standpoint the existing as well as future needs of these customers are being met.

Unfortunately this is not the case. Over the past 20 years, the insurance industry has seen a growth in the number of insurance companies either operating internationally or professing to have an international capability. Many years ago there were really only three insurance companies capable of providing a product to cover a multinational company’s international insurance exposures. These were AIU (AIG), Continental, and AFIA. Today there are some 24 companies that advertise an international capability, some delivering more than others. While each of these companies have strengths and weakness, one can conclude that the insurance industry from an insurance company standpoint has finally begun to recognize the opportunity and the need to provide customers with international products.

What about from a broker or insurance agent standpoint? Twenty years ago there were five “international” brokers and that number quickly grew to seven. One would have predicted that based upon the statistics above that this number would have grown to 12 and perhaps 20 today. Unfortunately, today, the “market” recognizes two global brokers, namely Marsh and AON. In my experience, both of these brokers focus their attention on the Fortune 1,000 to the Fortune 5,000, leaving thousands of companies still in need of true global risk management services. Additionally, the international expertise within these

firms, more often than not, is sold and delivered through an international network of owned brokers across the globe. This “network” approach has led many brokers/agents to feel as if this is indeed the solution for these clients and as such there has been an emergence of some “network” alternatives to the AON/Marsh international networks.

While worldwide representation is very important, what customers today often are not getting is the centralized global/multinational knowledge, experience, and expertise required to properly manage and control a risk management program outside the United States. Today, other than the Globex International Partner Broker model, which mirrors the old J&H international model by providing a customer with a dedicated international department working hand in glove with overseas affiliates, many multinational customers’ needs are still not being met.

Contributing to the dilemma as to why the ideal solution is not being met is the fact that there are very few seasoned multinational AEs or experts in the marketplace today. Years ago the large global brokers housed international departments or global business units. Today, these AEs tend to handle both domestic and international accounts, are spread thin, and are not housed as a distinct international team. Other brokers who practice a “dots on the map” approach often have very limited in-house multinational expertise. We strongly suggest that the brokerage community recognize this gap and begin the process to train and develop future multinational insurance experts.

What Is the Ultimate Goal?

Multinational customers today, regardless of size, should be enjoying the same level of risk management expertise internationally as they do domestically. This expertise needs to go *well* beyond having worldwide representation or dots in countries across the globe. It means having knowledgeable, experienced, easy-to-access international insurance

professionals who can deliver the same products and services internationally as they do domestically.

For the most part, the current solution practiced by most brokers/agents is essentially to offer access to a network of foreign brokers and agents across the globe. The ideal solution, however, is for domestic agents and brokers to have vision and look to the future to see what their existing and prospective customers will need in order to compete, survive, **and** grow. What this means is that these companies will require their vendors or service providers to have an in-house international or global capability and eventually this capability will have to match or exceed that capability that the customer is enjoying domestically.

How Does One Get There?

We suggest that there are two key questions a company should ask itself when evaluating the level of risk management services it has or needs outside the United States, namely:

1. Do we know what our total cost of risk outside the United States is including premium, fees, taxes, claims, and commissions?
2. Do we have the same degree of control over our international exposures as we do our domestic?

In today’s day and age, given the lack of focus the brokerage community has placed on delivering required risk management services by promoting a dots-on-the-map solution, the answer in most cases will be no to both questions. Only for those customers who have large global captive programs insuring worldwide risks will the answer more often be yes to both questions.

The mission for companies and brokers/agents alike is to work with one another so that the answer to both questions for all global customers is “yes.” This, however, takes a longer term focus than is currently being practiced.

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The Process

The majority of brokers competing on multinational business will ask for current values and exposures, current policy terms, and claims. They will then do their best to duplicate the program while striving to achieve a cost less than the client is currently paying. They will also either require or strongly suggest that the current international broker relationships be dismissed so that the successful broker can install his or her network of brokers or dots on the map. The large global brokers will require that their network of brokers service the local business needs while those alternative brokers who offer a network will strongly sell their dots on the map.

We believe that this is an approach that is fraught with problems and never allows the client to truly manage its international risk. Our suggestion to clients and brokers alike is to step back and begin “the process” by evaluating all the exposures the client has in any given country. Typically, these exposures have changed over time as the company has grown and the current risk management program in place may not reflect these exposures. A local insurance expert should do this evaluation. At the same time as this local survey is being done, an interview with local management can take place to understand its view of the current program and arrangements. They can also share local developments and future plans that might impact the risk management program. Finally, it makes sense to review the current insurance program for that entity for all lines in order to evaluate how appropriate current covers are. The result of this survey is a report to the customer detailing exposures, current service providers, likes and dislikes, strength and weaknesses, and total cost of risk for that country to the client.

With this report in hand the client and the broker can begin to build, from the ground up, a risk management program that reflects the needs of the client (both locally and globally) versus the

needs of the market or the international broker network. As this program is built conceptually, the risk finance piece can be designed (capacity, coverage, premium) the program administration can be addressed (claims reporting, engineering, policy issuance, reinsurance, fronting etc.), and the program servicing can be addressed (third-party services, retail broker services—retain existing broker or interview/install a new broker).

If a customer follows these preliminary steps in the process, he or she becomes educated as to the various risks at hand, has information on ways to improve current arrangements, and can identify current and future costs of the program. The logical next step is to take this information and design/develop a conceptual program including suggested markets and local service providers who are best able to deliver the ideal solution.

A marketing exercise is then performed using the risk assessments as tools to educate the market. Local broker roles and services are outlined and bid. The program pricing then comes together. (Unfortunately in today’s day and age it is at this stage in the process where a typical broker or agent begins, and the result is a program based upon incomplete information and an international risk management program that is disconnected from the domestic risk management program.)

If the customer is satisfied, and he or she should be because he or she has been part of the entire process, the program is implemented *and managed* from the central source so that the local client, local market, and broker are all acting in concert for the good of the program worldwide. Central management and control ensures that the client will always know what is going on and will be able to make changes centrally and locally efficiently.

As the international risk management program matures, it can eventually be dovetailed into the domestic risk management program offering the customer a truly seamless global risk management program. At that stage the client will then be able to answer “yes” to the two very important questions discussed earlier.

Conclusion

From a customer standpoint, we suggest you begin the process today to take control of your international exposures and risk management program. From a broker/agent perspective, we suggest you begin today to understand what your customers are doing or thinking of doing overseas and in turn begin the process to provide these customers internationally that which you are able to offer them domestically. Developing an internal international resource or temporarily outsourcing this resource is also suggested. ■