airmic research

BENCHMARKING

Global Casualty Insurance Programmes Benchmarking Report 2011

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ADVISEN Productivity & Insight for Insurance Professionals

CHARTIS

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Global Casualty Insurance Programmes

Benchmarking Report 2011

Introduction and Executive Summary

This is the second Airmic casualty survey and builds on the initial survey in 2010 which produced significant results and valuable insights into the casualty insurance market in 2010. The purpose of the survey is to create a benchmark that allows the risk management community, and casualty insurers, to track programme construction, administration and purchasing practices across businesses based in the UK.

The analysis of survey results enables risk managers to compare their own insurance practices and programmes against similar organisations. While in most cases there are no right or wrong answers about structures or casualty risk management practices, benchmarking nonetheless provides an objective basis for evaluating individual approaches and for stimulating ideas about alternative approaches.

The 2011 survey was conducted online by Airmic among its members in June 2011 and provides a more comprehensive discussion about existing and emerging risks. There can be little doubt that this year has been marked by a series of significant events; economic, political and natural disasters, which have highlighted how rapidly the world can change, and how swiftly businesses have to react to those changes. And yet, in many cases the research reveals that attitudes and responses have not altered significantly from last year – illustrating that reacting to complex and difficult changes can take much longer than expected.

It is very illustrative of the fact that navigating the global casualty insurance market has become more complex over time as risk managers struggle to meet their strategic objectives in a rapidly evolving global environment. As businesses expand their reach to foreign shores, the risks they face increase both in frequency and in magnitude. The constantly changing legal and regulatory environment that is reshaping the liability landscape adds another layer of complexity.

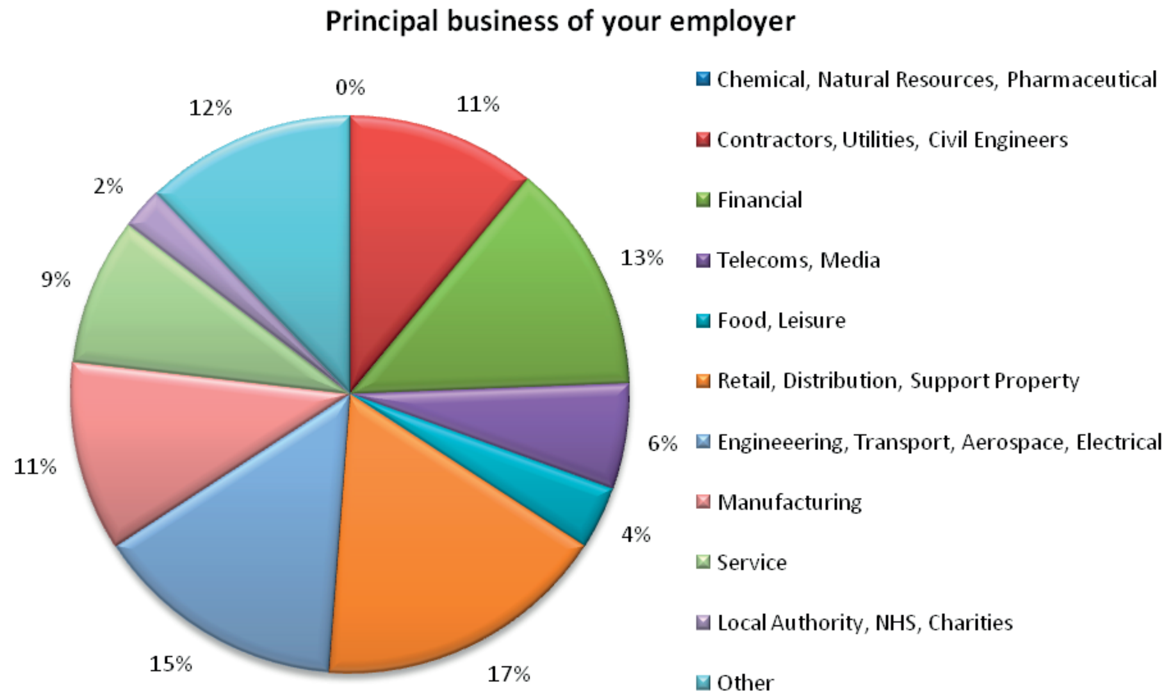
Key Findings

- As with the 2010 survey, Airmic members identified the following issues as the most significant challenges in structuring and managing their global casualty programmes:
    - compliance with local tax laws
    - legal and regulatory compliance with local insurance requirements
    - getting policies issued in a timely fashion
    - For a majority of Airmic members surveyed, the excess casualty programmes operates as a single global programme.
    - More than 60% of the Airmic members surveyed use captive insurance companies in their global casualty programmes.
    - Companies with North American operations tend to purchase higher limits across all coverage types than those that do not operate there.
    - Determining appropriate liability limits is a key process, with nearly 40% of the survey respondents relying on advice from brokers and historical precedent in determining the amount of excess liability to purchase.
    - Retentions purchased in 2011 are roughly the same as 2010 levels, across public liability, product liability and motor liability.

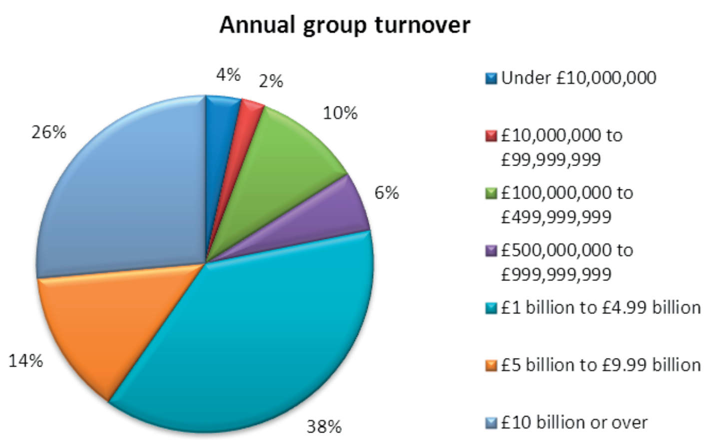
Demographics

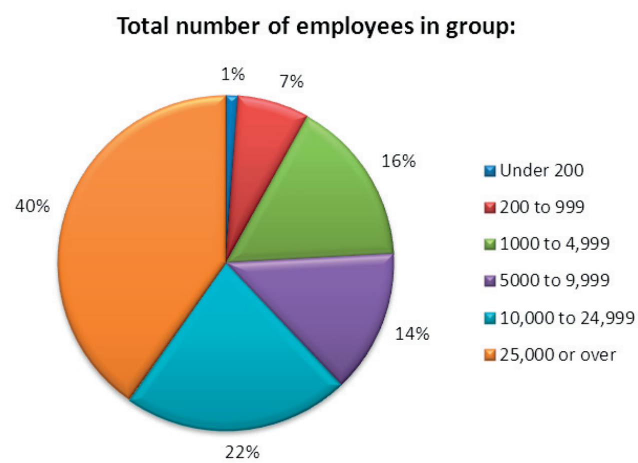
Respondents to the 2011 survey were 87 individuals representing Airmic members. The number of respondents saw a slight increase from the 83 respondents to the 2010 survey. It is interesting to note that the profiles of participants in the current and previous surveys are quite similar in terms of principal business, annual turnover and number of employees. This similarity implies that we can compare responses to programme structures, programme administration, premiums, limits and practices responses between surveys.

The Airmic members polled are widely distributed across several industries. As with the previous survey, the largest industries represented are “Retail, Distribution, Support Property” (16%), “Engineering, Transport, Aerospace, Electrical” (14%) and “Financial” (13%).

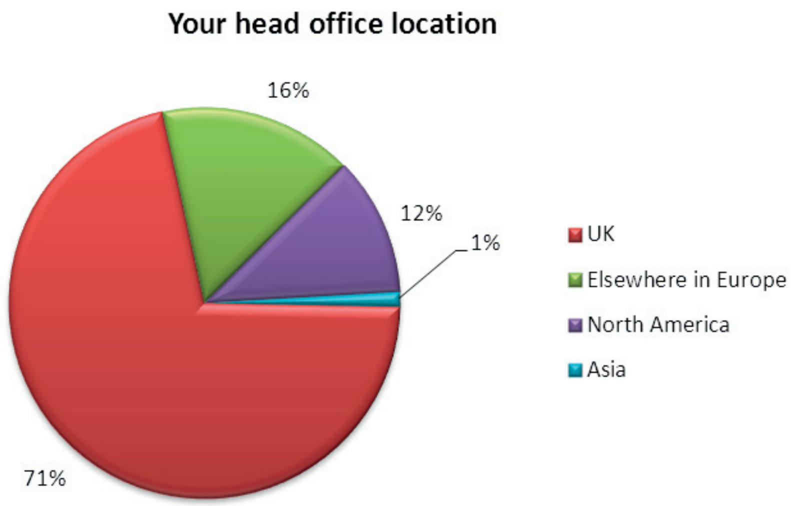


Similar to the 2010 poll, a majority of the respondents surveyed in 2011 are from large companies. Over three quarters of the participants have an annual turnover of over £1 billion and 62% employ more than 10,000 people.

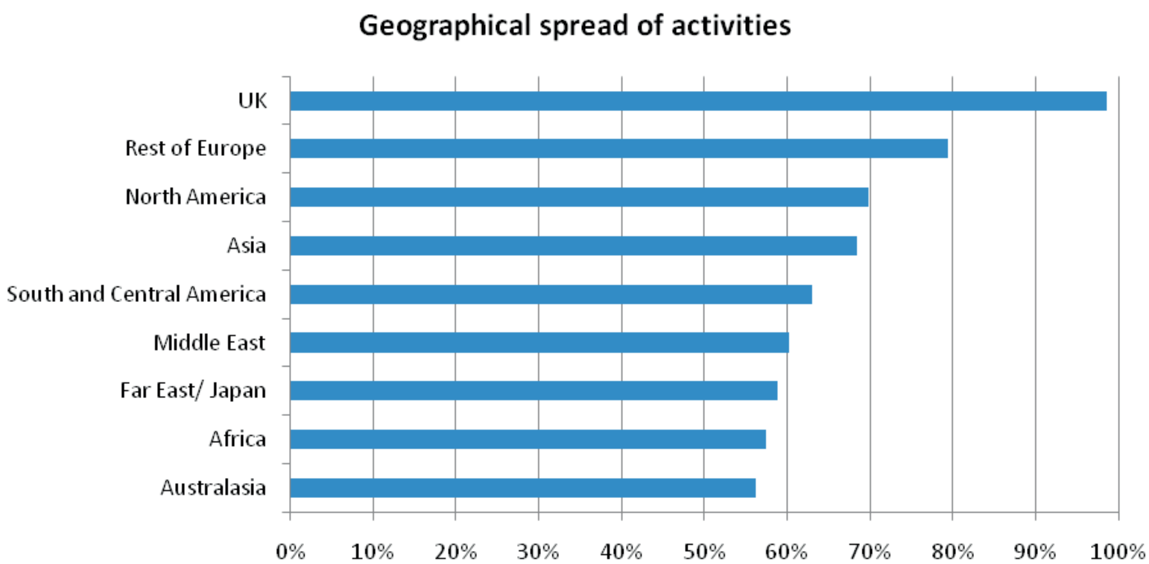




Over 70 percent of respondents were from companies with head offices located in the UK. This compares to 80 percent in the 2010 poll.



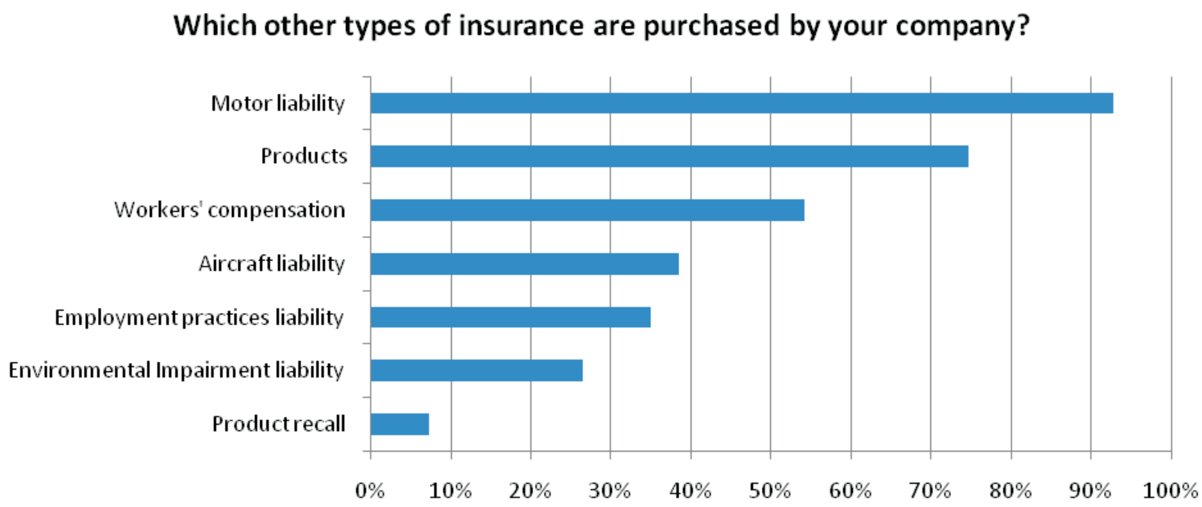
In terms of geographical reach, the operations of the participating companies are widely distributed across the world, but with greater concentration in the UK, other European countries and North America.



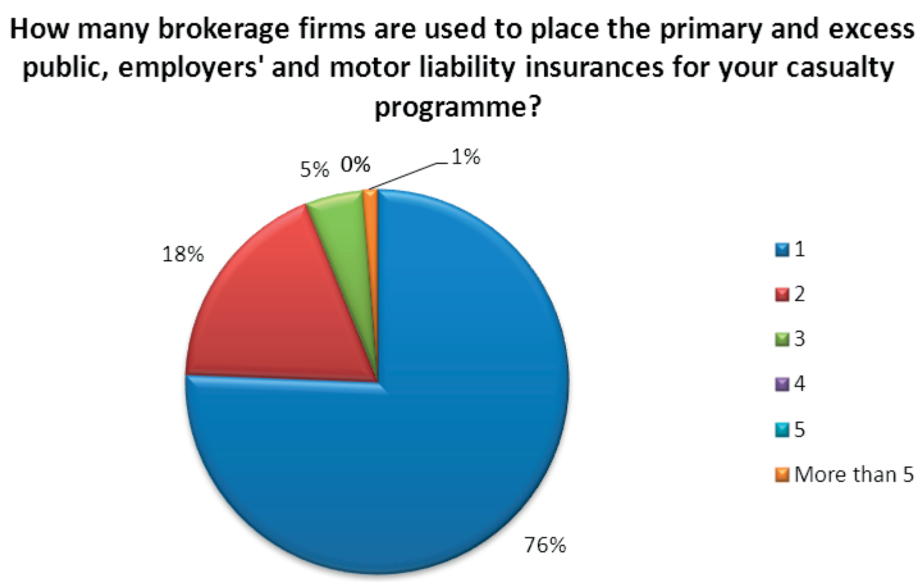
In terms of the extent of geographical operations outside of the UK, there is no fundamental difference in the responses of small and large companies. What is notable is that companies that operate in North America have wider operations spanning seven to nine regions compared to companies that do not operate in North America.

Casualty Programme Features / Structure of Casualty Programme

Apart from public liability and employers' liability, which were assumed to be purchased by all participating Airmic members, motor liability (93%), products liability (75%) and workers' compensation (54%) were the types of casualty insurance most frequently purchased. These three types also topped last year's list.

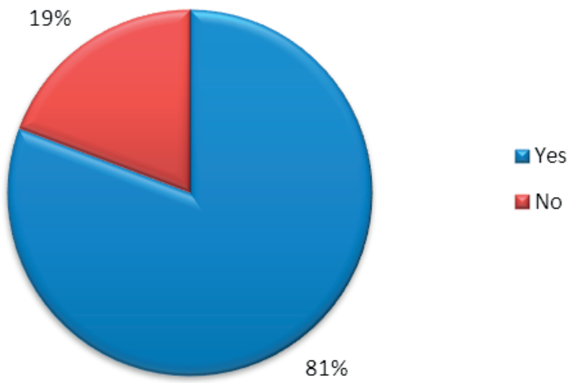


A majority (70%) of the survey participants use only one brokerage firm when placing primary and excess public, employers' and motor liability insurance for their casualty programmes.



When asked whether their companies' casualty programmes cover operations owned or operated by their organisations outside the UK, the vast majority of participants responded "yes."

Does your company's casualty programme cover operations owned or operated by your organisation outside the UK?

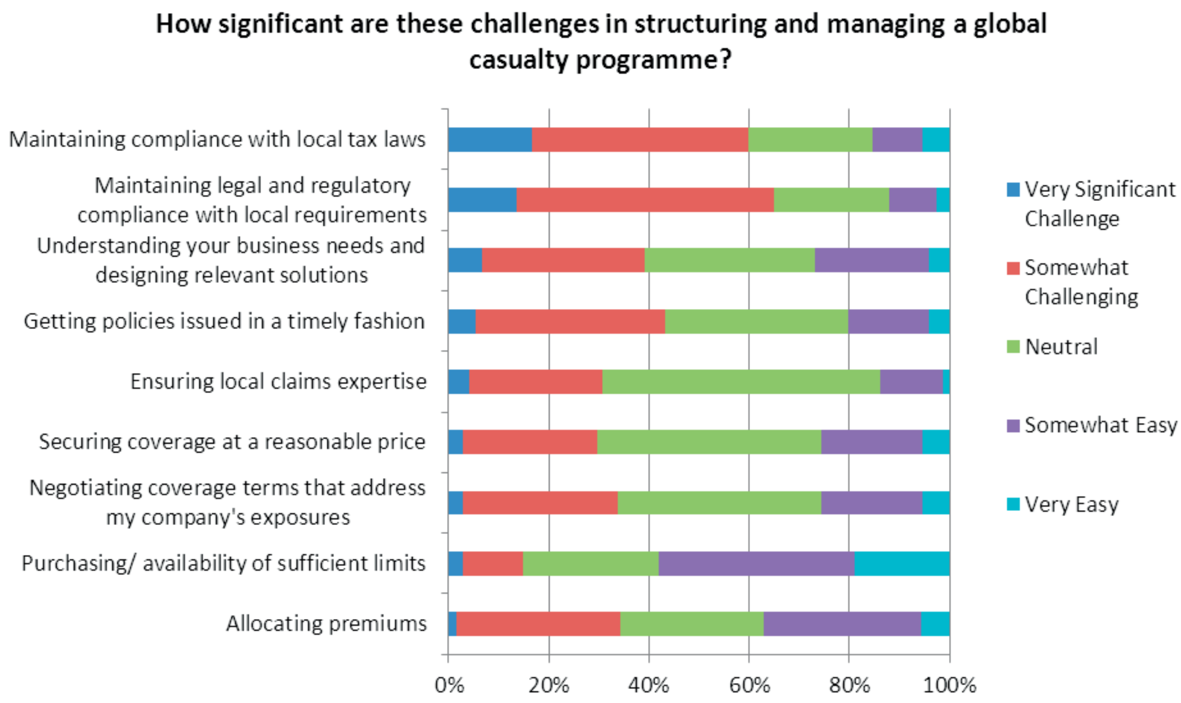


Compliance is a major area of concern among risk managers polled. As with the previous survey, participants identified "maintaining compliance with local tax laws" and "maintaining legal and regulatory compliance with local insurance requirements" as the most significant challenges they face in structuring and managing their global casualty programmes.

As companies venture into multiple territories, they are faced with the complexity of insurance requirements in each country where they conduct business. The payment of proper insurance taxes is of particular importance as one minor miscalculation can result in accusations of tax evasion. Since virtually all territories around the world have insurance taxes which are implemented in varying ways, companies must be able to navigate their way through various tax rules. The constantly evolving legal and regulatory environment also makes companies vulnerable to a broad spectrum of risks. Thus, staying abreast of new international laws and ensuring compliance also is a key concern.

Larger companies – those with turnover of more than £1 billion – are more likely than smaller companies to find "maintaining compliance with local tax laws" and "maintaining legal and regulatory compliance with local insurance requirements" challenging. As a sign of the soft market, the "purchasing/ availability of sufficient limits" question had the highest number of respondents reporting it to be Somewhat Easy or Very Easy.

"Getting policies issued in a timely fashion" is identified as the third most significant challenge.

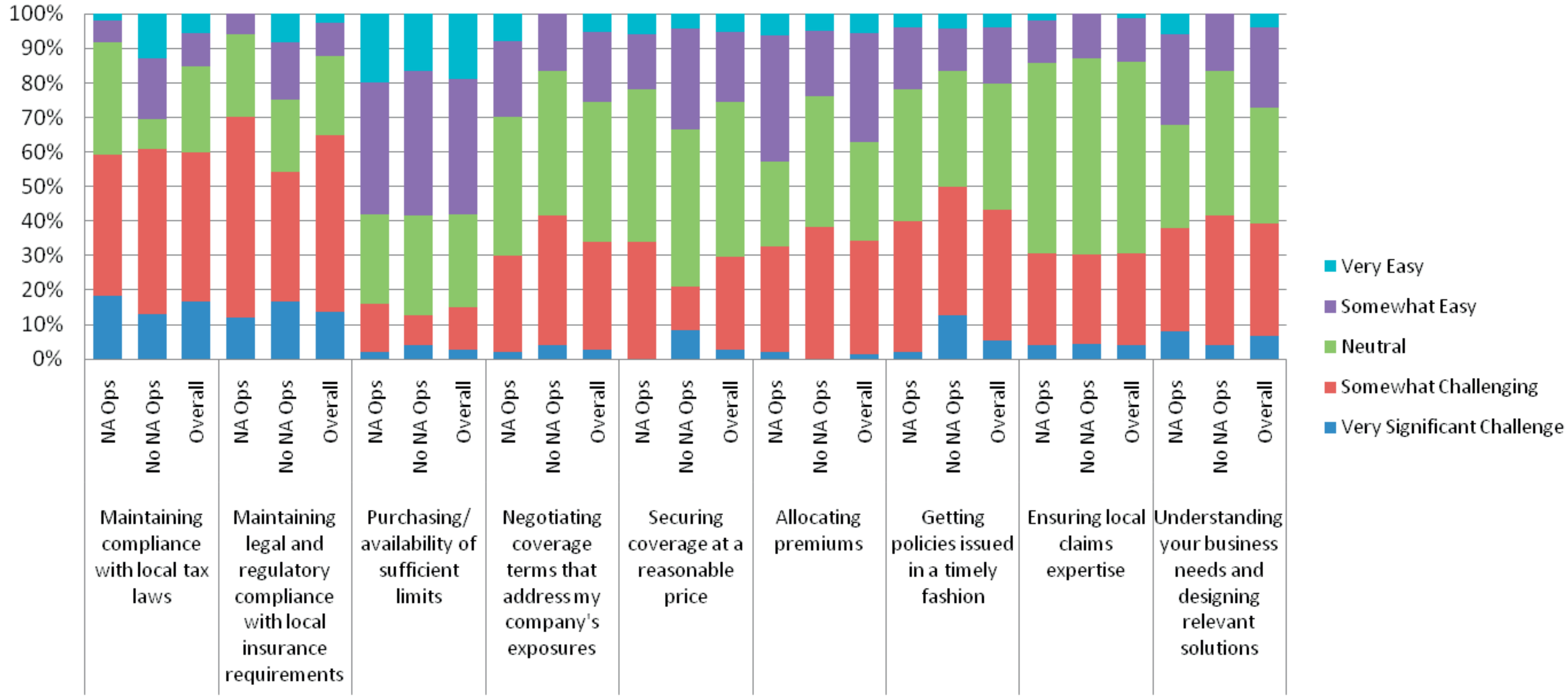


There are significant differences in the challenges faced by companies with and without North American operations when it comes to structuring and managing their global casualty programmes. For one, companies that operate in the U.S. find it harder to comply with local tax laws and local legal and regulatory insurance requirements. This is not surprising since the U.S. has 50 state regulatory regimes. Moreover, the country is known for its highly litigious environment.

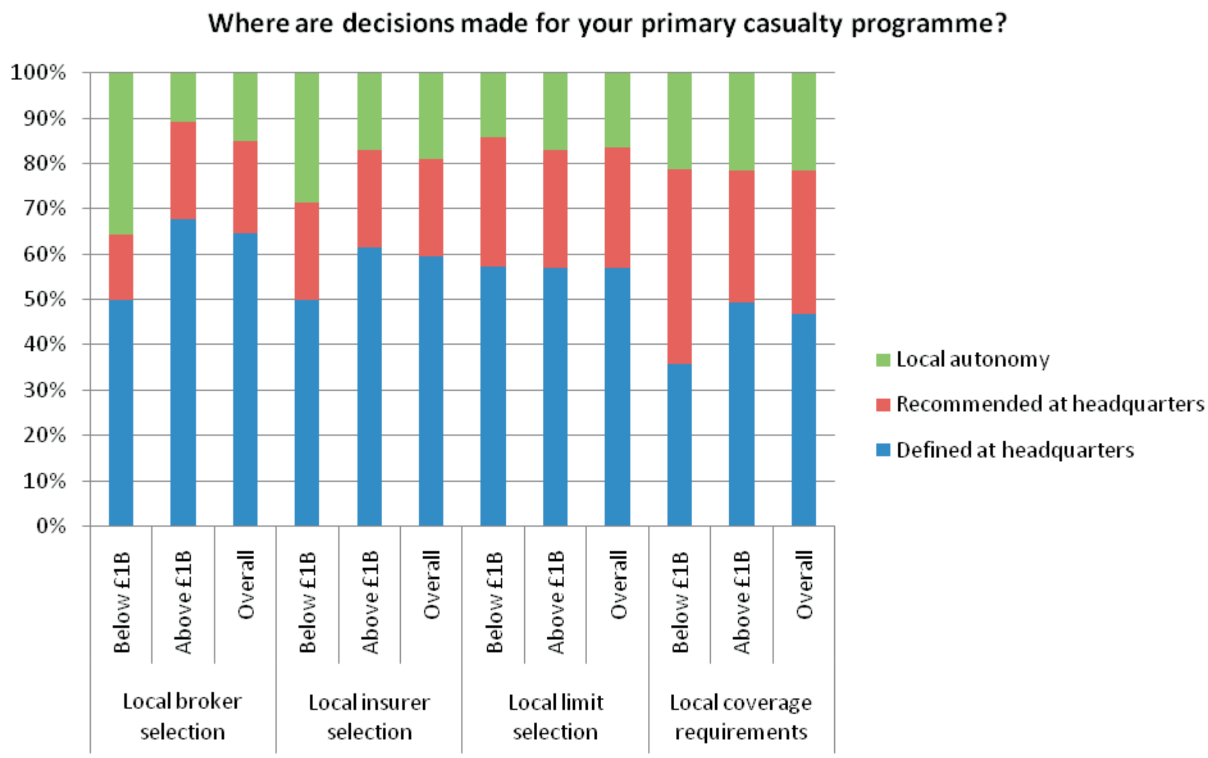
Another difference lies in policy issuance timeliness which is more of an issue for companies that do not operate in the U.S. This could be an indication that policies are issued faster in the U.S.

"Negotiating coverage terms that address my company's exposure" is also more of an issue for respondents that do not operate in North America.

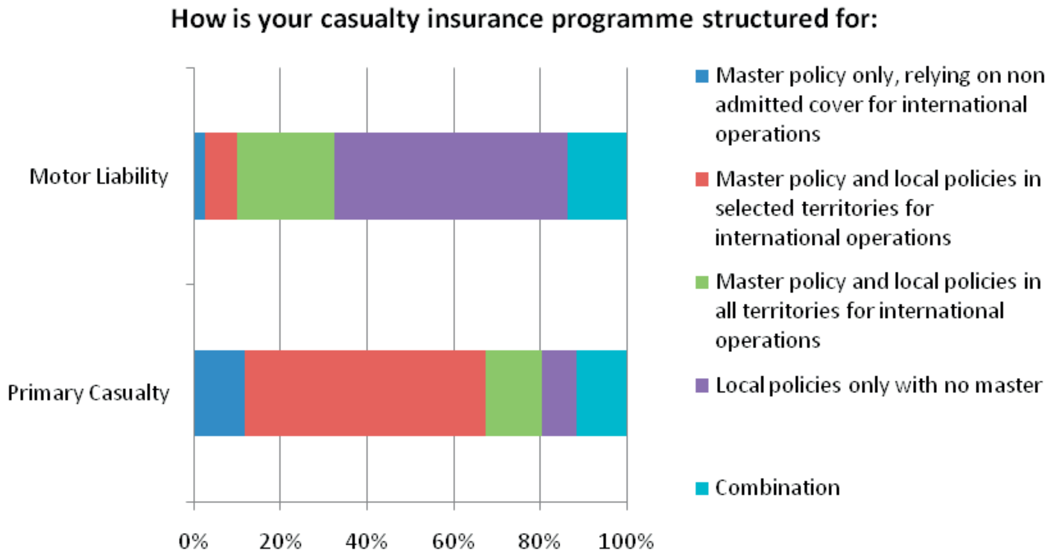
Significant challenges in structuring and managing a global casualty programme - North American Operations vs No North American Operations



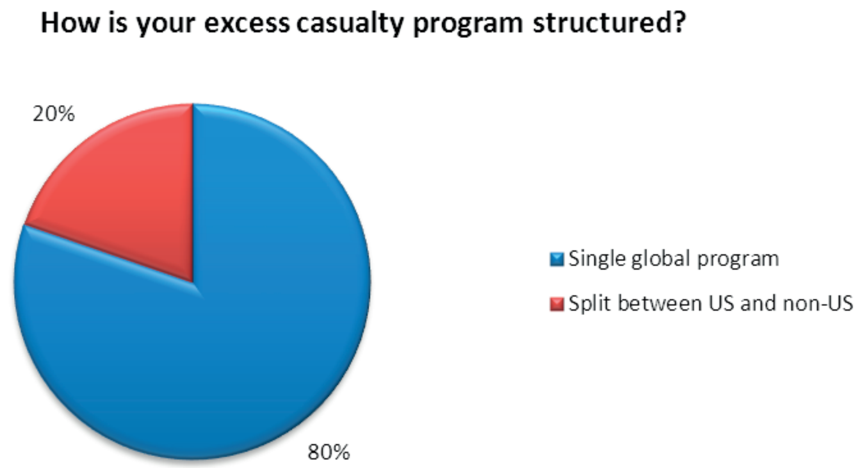
Important decisions such as the selection of local brokers, insurers and limits, as well as local coverage requirements, are defined at headquarters. The larger companies are more highly centralised when making such decisions.



As with the previous survey, more than half of the respondents purchase local policies only with no master for motor liability. For primary casualty, 54 percent buy a master policy and local policies in selected territories for international operations.



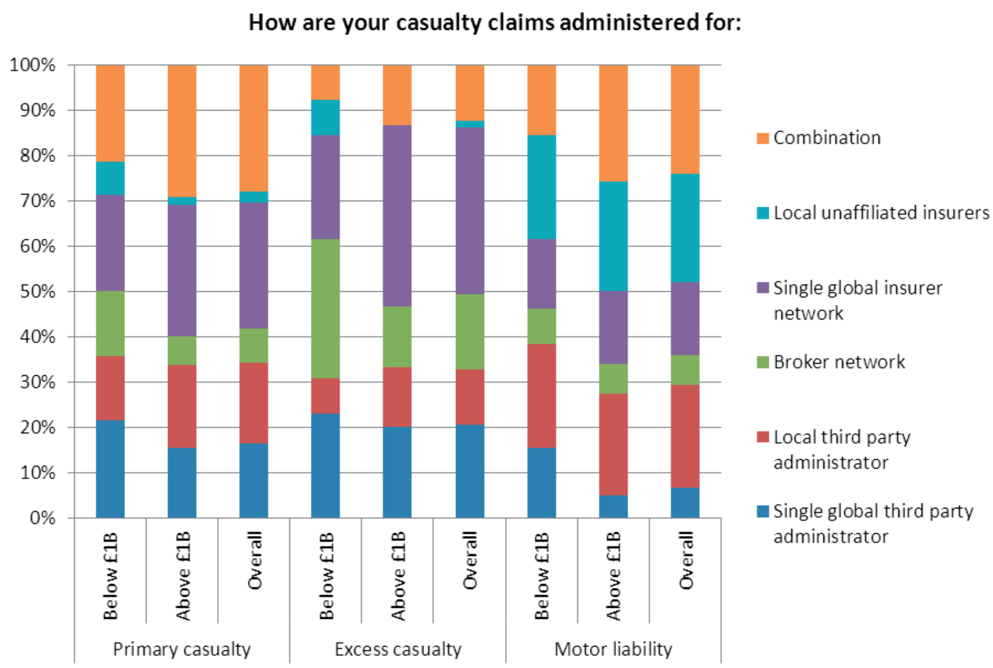
For a majority of Airmic members polled, excess casualty programme operates under a single global programme



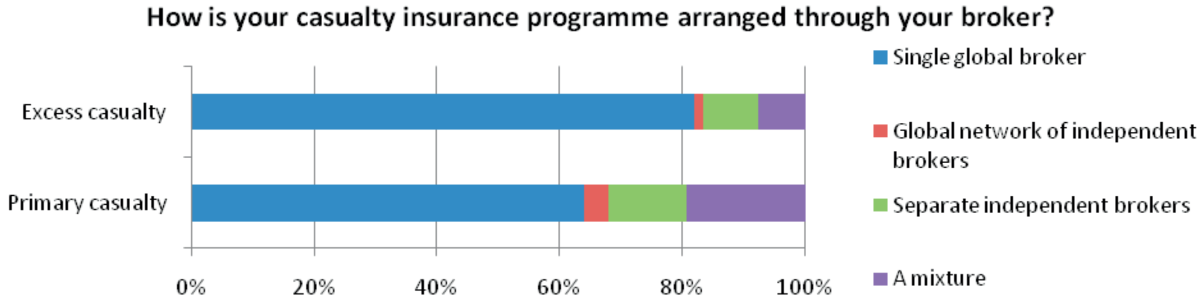
Asked which two countries they feel are the most challenging from a global multinational insurance programme management point of view, many respondents mentioned Brazil, China, India and the U.S. These are the same responses they gave when asked to name two countries they feel would most need local expertise supported by global guidance to help manage exposures with regard to global multinational insurance programmes.

Programme Administration

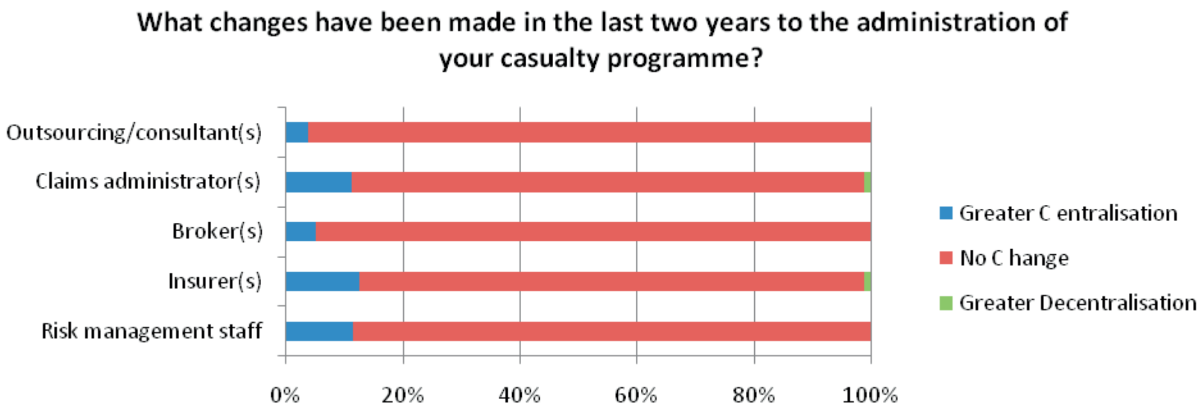
The Airmic members polled employ a mix of channels in terms of administration of casualty claims. For primary casualty, an equal percentage of respondents (28 percent) use a single global insurer network and a combination of channels. For motor liability, a quarter of the Airmic members surveyed use local unaffiliated insurers, while another quarter use a combination of channels. One significant observation is that a combination is the most frequently used channel for both primary casualty and motor liability. In the case of excess casualty, it is not surprising that 40 percent of respondents tend to rely on the expertise of a single global insurer network. The larger companies are more inclined toward using this type of channel, while smaller firms tend to utilize a broker network.



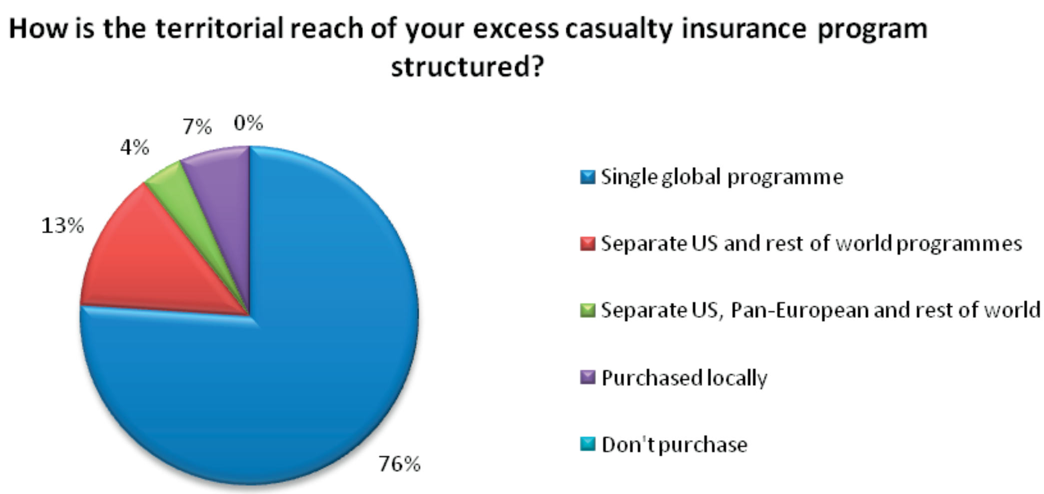
The use of a single global broker is popular for both primary casualty and excess casualty, with 82% of respondents saying they utilize single global broker for excess casualty, while 64% use a single global broker for primary casualty. This is probably because excess insurance is purchased (often on a DIC/DIL basis) from fewer insurers, whereas primary insurance maybe more complex in structure.



A majority of the respondents report no change in the administration of their casualty programmes in recent years.



Similar with the previous survey, three quarters of the respondents purchase a single global programme for excess casualty insurance.



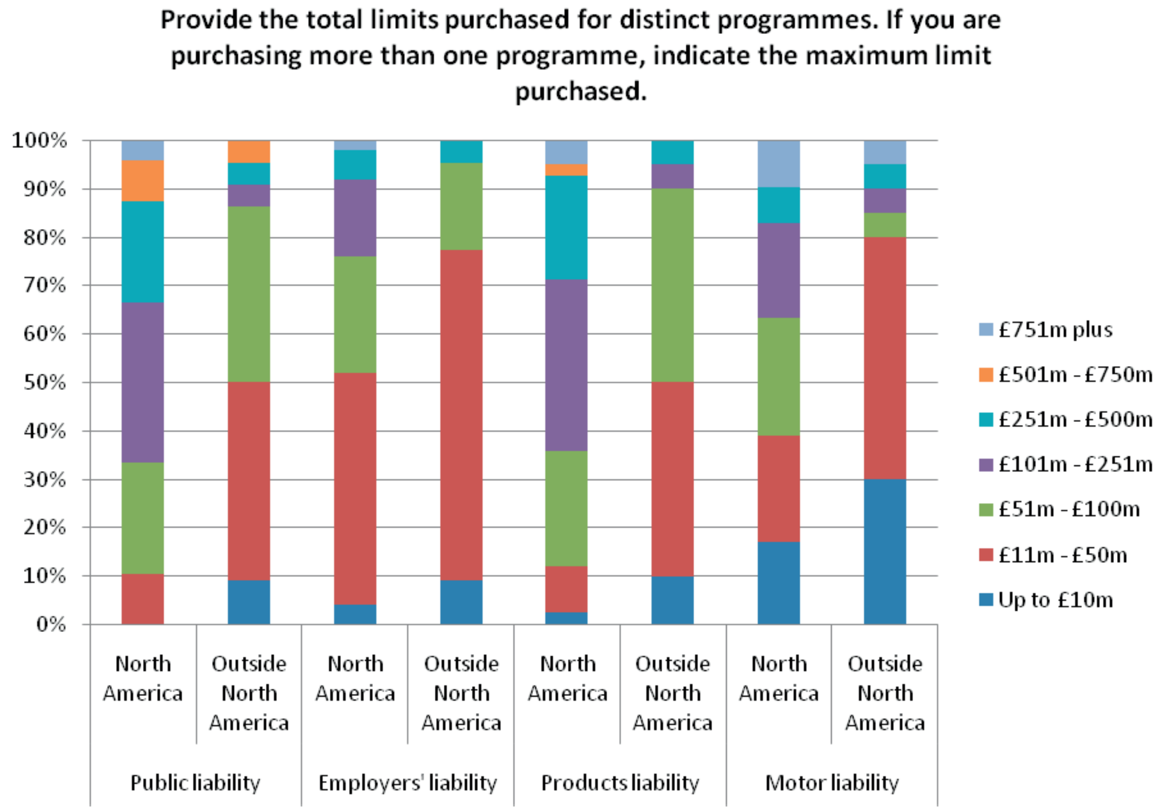
Limits

On average, the highest limits are purchased for public liability and products liability. Similar with last year's result, the lowest limits are purchased for employer's liability.

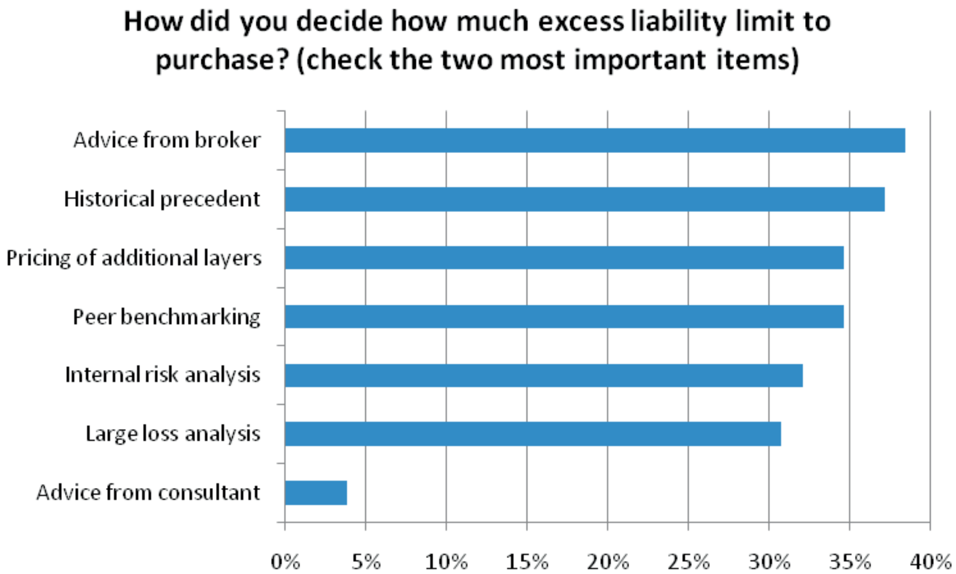
Limits by Coverage

	Up to £10 million	£11 million to £50 million	£51 million to £100 million	£101 million to £251 million	£251 million to £500 million	£501 million to £750 million	£751 million plus
Public Liability	23%	19%	26%	28%	15%	7%	3%
Employers' Liability	5%	18%	27%	30%	15%	2%	3%
Products Liability	5%	18%	27%	30%	15%	2%	3%
Motor Liability	18%	30%	15%	15%	15%	6%	0%

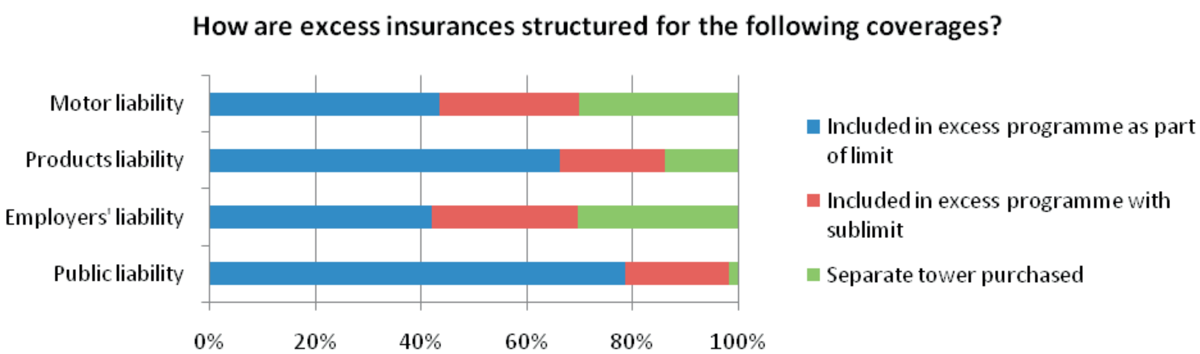
Companies with North American operations tend to purchase higher limits than those that do not operate in North America across all coverage types.



Determining appropriate limits is a key process for risk managers. Nearly 40 percent of the survey respondents rely on advice from brokers and historical precedent in determining the amount of excess liability limit to purchase. These two methods also play key roles in deciding retentions.



Mirroring the results of the previous survey, public liability and products liability are included within the excess programme as a part of the limit for 60 percent or more of the survey participants. A little less than half of the respondents say employers' liability and motor liability are included in the excess programme as a part of the limit.



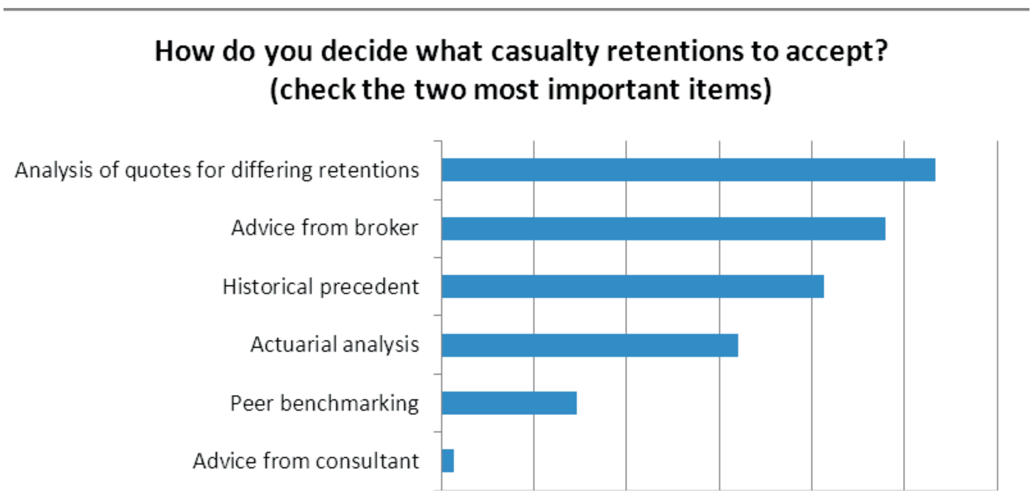
Retentions

Retentions purchased in 2011 are roughly the same as 2010 levels. For public liability, product liability and motor liability, close to half of the respondents purchased retentions of up to £101,000. For employers' liability, 60 percent reported paying a guaranteed cost. This compares to 49 percent in the previous poll.

Retentions by Coverage

	£0 (guaranteed cost)	Up to £101k	£101k to $250k	£251k to £500k	£501k to £1 m	£1 m to £5 m	£5 m to £10 m	£10 m plus
Public Liability	16%	45%	13%	11%	4%	5%	1%	4%
Employers' Liability	60%	14%	8%	7%	4%	1%	1%	4%
Products Liability	13%	48%	13%	9%	3%	7%	3%	4%
Motor Liability	36%	45%	6%	1%	4%	3%	0%	4%

In establishing retentions, more than half of the respondents say they rely on analysis of quotes for differing retentions. This method also was the top response in the 2010 poll. As with last year, the other top answers are "advice from broker" and "historical precedent."



Premiums

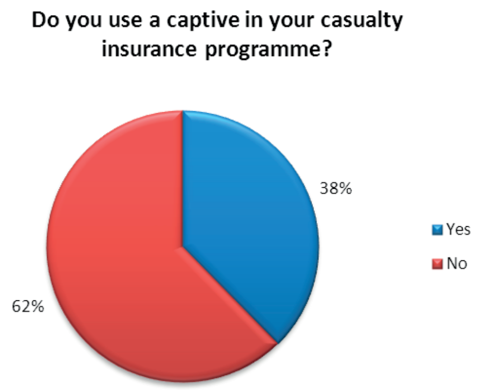
Thirty-three percent of the Airmic members surveyed reported paying more than £1 million for umbrella coverage in 2011. The highest premiums were paid for public liability, while the lowest was purchased for motor liability.

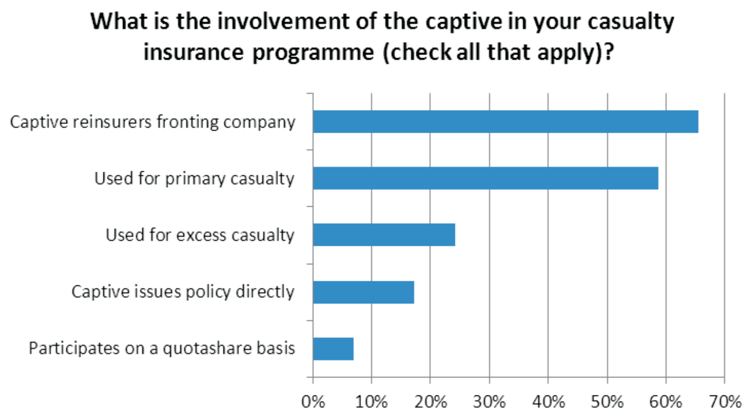
Global Excess Premium Expenditure by Coverage

	Up to £125,000	£125,001 to £250,000	£250,001 to $500,000	£500,001 to £1 million	£1+ million to £5 million	£5+ million to £10 million	£10+ million
Public Liability	23%	12%	18%	16%	28%	4%	0%
Employers' Liability	38%	16%	15%	9%	22%	0%	0%
Products Liability	33%	13%	9%	20%	22%	2%	0%
Motor Liability	40%	18%	13%	11%	16%	0%	2%
Umbrella Liability	22%	11%	19%	14%	25%	8%	0%

Captives

Survey results show an extensive participation of captives among Airmic members, indicating that captive insurance companies are seen as important alternative risk financing vehicles for casualty insurance. A greater number of Airmic members (62 percent) used captives in their casualty insurance programmes in 2011. This compares to only 40 percent in 2010. More than half of the companies that employ captives use them as captive reinsurers fronting company and for primary casualty.





Captives are most likely to used for public liability and least likely for motor liability.

Conclusions

The 2011 Global Casualty Insurance Programmes Benchmarking Report presents the responses gathered from the second leg of a comprehensive annual survey of risk managers seeking to provide actionable benchmarking data and to track trends in cost of risk.

Airmic members polled employ a wide range of approaches in managing their global casualty exposures. A mix of channels is employed in terms of administration of casualty claims. A combination of channels is the most frequently used channel for both primary casualty and motor liability, a single global insurer network is most commonly used for excess casualty.

“Maintaining compliance with local tax laws,” “maintaining legal and regulatory compliance with local insurance requirements,” and “getting policies issued in a timely fashion” remain as the most significant challenges faced by risk managers in the UK in structuring and managing their global casualty programmes.

The 2011 Global Casualty Insurance Programmes Survey provides UK-based risk managers with information to benchmark their insurance programmes against similar organisations. It offers critical information that risk managers and their companies can use in making decisions about risk management and insurance. Airmic anticipates that continued strong support for the survey will result in an annually updated tool that will offer member companies valuable insights into structuring their insurance programmes.

Chartis Market Overview

Looking at the world from a different perspective

2011 has been a challenging year for risk managers around the world – but particularly those who are operating from mature economies such as the UK. The European Commission has predicted that economic growth in the Eurozone will come "to a virtual standstill" in the second half of 2011, and it halved its forecast for July to September 2011 to growth of just 0.2%, while the forecast for the last 3 months of the year is down from 0.4% to 0.1%.

So these are not easy times for business, and many companies are pursuing opportunities to expand their operations all around the world, and operate in a more international environment. All of which leads to increased global exposures. The good news for insurance buyers is that, despite a high level of natural catastrophes this year and attritional losses, capacity within the insurance market remains relatively abundant. For anyone struggling with cash flow and balance sheet issues, it is unlikely that prices are going to rise sharply across the board in the near future.

While market conditions have remained stable, it would be fair to say that the risk environment has not done the same. It would take too long, and be too depressing, to list the catalogue of disasters that the world has seen this year, although it is worth looking at some areas of particular significance to business. For example, for businesses that are investing in the more emerging economies, the political unrest and violence across the Middle East and North Africa can be viewed as a surprising and salutary lesson as to the speed and severity with which a seemingly stable regime could change.

The Japanese tsunami – as well as causing tragic loss of life – revealed the fragility of previously successful supply chains. Incidents such as the Twitter super-injunction scandals and Sony PlayStation data hacking case, have highlighted the rising prominence of risks facing firms over publishing and storing information, and the increasing profile of cyber liability or data breach problems.

Against this background, this year's research by Airmic into the Casualty insurance market reveals an interesting dichotomy: very little has changed in the responses of risk managers from last year despite the many significant events of the year. It would also suggest that, for some, reacting to economic and legislative changes takes longer than expected – in some cases because of the complexity of the changes, and in others because the business landscape is subject to constant development. With this in mind, we have chosen to look at 3 key areas from the research where this appears to be particularly true: the design and administration of global programmes, environmental liability and reputational risk management.

Global programmes

The research shows that respondents felt that "maintaining compliance with local tax laws" and "maintaining legal and regulatory compliance with local insurance requirements" were the most significant challenges they faced in structuring and managing their global casualty programmes. These are concerns that have been articulated consistently over the years and risk managers feel that some parts of the insurance industry have been slow to respond.

Our own experience of global programmes has developed over a period of more than 60 years, and is very much focussed on delivering real-time solutions to the complex questions that multi-national businesses face every working day. A key part of the Chartis strategy in helping to resolve these concerns is having our own network, which remains a strong differentiator over those companies that don't – having our own personnel on the ground in emerging markets such as Brazil, Turkey, Mexico or Indonesia means that they really do understand the local environment.

This gives us a very different proposition which is about having the experience to deal with all the varied concerns that can come to bear when insurance has to perform, whether it is an underwriting or claims problem.

This reach is a real strength. You need a very broad product offering, experience in the various fronting mechanisms and complex structures and risk financing that are essential for the insured. Insurance providers who do not have the capability, knowledge and experience to draw on for the benefit of the customer are not going to be addressing the buyers' key concerns.

Environmental liability

The subject of environmental liability has risen up the corporate agenda in recent years in the UK following the transposition of the European Environmental Liability Directive in 2009 and the arrival of the Environmental Civil Sanction Order 2010 that bolstered enforcement of environmental damage. Potential costs can be significant given the requirements for complementary and compensatory remediation, as well as initial clean-up costs.

However, it is interesting to note that in this year's research – despite the legislative changes and some high profile environmental disasters – more risk managers did not perceive their businesses to be any more financially exposed now to environmental issues than in previous years. This is reflected in the fact that the percentage of respondents that bought environmental insurance, both overseas and in the UK, is static at best.

There may be a number of possible explanations for this. The first is around whether or not these issues are seen as arising primarily from sudden and catastrophic accidents, and only in the high risk industry sectors such as utilities or chemicals. Another may be that extent of the remediation required – especially to biodiversity – is not fully understood, or that there is a lack of clarity around whether potential environmental exposures are covered under an organisation's existing General Liability (GL) policy. 45% of respondents to the survey felt it was.

It is clear both from this research, and from our conversations with businesses, that considerable confusion exists as to the range of liabilities, where coverage on different policies stop and start and the costs that might be incurred. Yet, we believe that any inertia on the part of buyers and brokers on considering these issues creates significant risk for the business.

As a result, Chartis UK has invested in sustained communications and educational activity to address these needs. We have worked with the Chartered Insurance Institute (CII) to produce new training modules that introduce and clarify key areas of environmental insurance for which CII members can earn Professional Development Credits. The new training modules will help to equip brokers with the knowledge they need to understand the new laws, the environmental exposures and what may be insured or not. Other initiatives have included creating 3 animated podcasts on the Chartis website covering biodiversity damage, gradual pollution and onsite clean- up costs. These tools have now been accessed by 1700 brokers since they were first published.

Reputational risk management

When the survey's respondents were asked about which emerging liability risks they predict will become more important in the next 5 years, a significant percentage identified those where there was strong reputational element from bad PR, or as a result of product recall or liability which have a detrimental effect on the perception of the business. Yet nearly 60% of respondents felt that the conventional insurance market was not doing very well at addressing these risks.

Our view is that any solution needs to contain a number of different components to look at the various areas from which risk may emanate. These might be supplier relationships, quality control issues, the practical steps of issuing product recall notices, dealing with the media fallout or re-building a brand. Any solution needs to address both prevention as well as cure – so we have focused on providing cover for the quality control consultants and supply chain audits, as well as experts who can advise on communications after the event.

Conclusion

The future is unlikely to be any less demanding than the recent past, and change will inevitably be swift and constant. Against this background the entire risk management industry – buyers and sellers – need to be nimble in their responses and innovative in their thinking.

This means extending services from traditional risk transfer towards loss control, particularly in terms of managing attritional losses. For example, Chartis' Human Focus service provides support to clients in assessing the safety performance of their suppliers by providing them with an audit of their entire supply chain – making it easy to identify problem areas.

It is unlikely however that there is any single "silver bullet" for these troubled times, but rather there is a need for close and creative collaboration between insurer, insured and broker to manage the changing business environment.

About Chartis

Chartis is a world leading property-casualty and general insurance organisation serving more than 70 million clients around the world. With one of the industry's most extensive ranges of products and services, deep claims expertise and excellent financial strength, Chartis enables its commercial and personal insurance clients alike to manage risk with confidence.

Multinational

Chartis are one of the world's leading insurers of multinational businesses. With over 60 years experience of multinational insurances, the largest owned global network the insurance industry has to offer and 9,000 claims staff in 320 offices throughout the world, we've got a great deal to offer international businesses of all shapes and sizes.

Wherever clients' operations are in the world we can get a Chartis claims handler there to help service their loss. Our unparalleled owned global network means we're less reliant on other companies and Chartis staff worldwide are dedicated to clients' local policy issuance and service levels.

One UK Chartis contact for multinational clients, central premium and claims tracking and our UK multinational centre of excellence dedicated to coordinating clients' global programme give clients more control over their worldwide insurances. Throughout the world Chartis companies' in-depth knowledge of local regulations means on-the-spot guidance to help clients' meet their compliance obligations.

With one of the widest product ranges available, Chartis can handle all of our clients' insurance exposures, all around the world.

About Advisen

Advisen is headquartered in New York and integrates business information and market data for the commercial insurance industry and maintains critical risk analytics and time-saving workflow tools for over 530 industry leading firms. Through its work for the broadest customer base among information service providers, Advisen delivers actionable information and risk models at a fraction of the cost to have them built internally. Designed and evolved by risk and insurance experts and used daily by more than 100,000 professionals, Advisen combines the deepest data sets in the industry with proprietary analytics and offers insight into risk and insurance that is not available on any other system. For more information, visit www.advisen.com or call +1.212.897.4800 (New York) or +44 (0)20 7929 5929 (London).

About Airmic Membership

Airmic has a membership of about 950 from about 450 companies it represents the insurance buyers for about 75% of the FTSE 100, as well as very substantial representation in the mid 250 and other smaller companies. Airmic members control about £5 billion of annual insurance premium spend. A further £2billion of premium spend is allocated to captive insurance companies within member organisations. Additionally, members are responsible for the payment of insurance claims from their company finances to the value of at least £2 billion per year. In addition to insurance responsibilities, many Airmic members are responsible for broader risk management activities, including project, operational and enterprise risk management. Many members operate at very senior level within their organisations with direct input at Audit Committee and / or Executive Risk Management Committee, as well as making regular Board presentations. Further information on the benefits of Airmic membership can be found at: www.joinAirmic.com