Lost in translation

Global businesses need integrated insurance solutions to ensure adequate protection

By Kathleen S. Ellis

A U.S. company has purchased a manufacturing plant in China as part of a global expansion. Now, it needs property insurance for that facility, and it's the insurance agent's job to pull the program together and develop an insurance program that responds to its customers' global needs.

It should be no problem, right? Property insurance is property insurance.

It sounds easy, but it's not that simple. Although some of the company's exposures in China may indeed be similar to those in the United States, many may be quite different. In fact, risks can vary substantially from one country to the next as a result of differences in fire protection standards, crime conditions, local zoning codes and other factors.

These differences can present a serious challenge for agents trying to develop a coherent global property program for clients with operations in foreign countries. But by combining local admitted property insurance with a master difference in conditions/difference in limits (DIC/DIL) policy, you can provide your clients with the kind of cohesive global property insurance program they need.

Assessing the risks

To determine the appropriate insurance for a commercial client, the first step is a thorough review of the property-protection standards, public and private, in each of the countries where that client has operations.

Most commercial buildings outside the United States, for example, do not have sprinkler systems. If they do have such systems, the standards used for measuring water availability and pressure may be different from those in the United States. Not all sprinkler system components and equipment are subject to quality standards for response and reliability. Working with an insurer with strong loss control services puts businesses in the best position to properly assess the effectiveness of the building's fire suppression systems.

Public fire protection also can be a challenge in foreign countries. Just like in the United States, cities and industrial areas in foreign countries are often congested with traffic, making it difficult for fire departments to get to a burning structure quickly. Businesses with facilities in remote locations, on the other hand, may find there is limited public fire protection or water available for extinguishing fires. Water, for instance, may only be available at specific times of the day, making firefighting a game of roulette.

Local zoning laws, meanwhile, are usually far less stringent than in the United States, if they exist at all. In parts of Asia as well as certain developing countries around the world, for example, it is not uncommon for high-rise buildings to have a mix of tenants, including manufacturers, restaurants, light industry and residential — all in one structure.

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Businesses will have significantly different risks depending on where their facilities are located and that, in turn, will have a strong influence on their insurance needs. Putting together a global program for such a client can seem like a daunting challenge. Half the battle, however, is knowing how each country's risks and insurance requirements differ and then finding the insurance products that can help support their needs.

The right insurance program

U.S. companies can protect their international operations through a number of different insurance products.

Local admitted property insurance is available in most markets around the world and is tailored to country-specific exposures. In many cases, companies are required by law to purchase this local insurance.

By buying the local admitted policy, businesses can be assured of being in compliance with local requirements, but they may gain other advantages as well. For example, they may have access to local terrorism and natural catastrophe insurance pools through their local policy. These pools are usually a cost-effective and straightforward way for clients to obtain this type of insurance.

Because the policy will be in the language of the country where the foreign operation is located, managers based there will be able to review and assess that the insurance is appropriate and that they are in compliance with local requirements.

The disadvantage, however, is that these local policies usually respond to named perils only and, therefore, don't normally meet the needs of U.S. businesses.

Businesses should also purchase a master policy or DIC/DIL policy or what is referred to as a controlled master policy (CMP) to create a global program. This kind of program is coordinated out of one location, typically where the parent is based, and can provide protection that has a familiar feel and approach to the U.S.-based insurance buyer. The CMP also provides insurance that may be needed but may not be available or common in the local market. The master policy structure can be written in conjunction with the local admitted policies in each country and fill in potential insurance gaps, which are common in these local contracts.

Some local policies, for instance, require that a detailed statement of operations be warranted on the policy declarations. At the time of a loss, a local policy on its own could leave the insured without insurance if it is determined that there was a slight change to the operations or that the description on the policy was too vague.

Other gaps in coverage

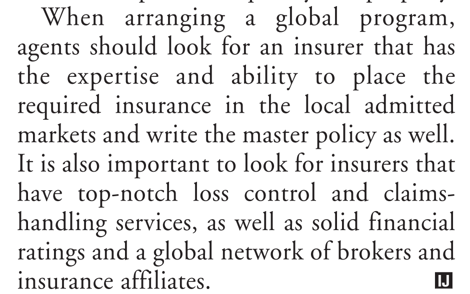
Companies with only local admitted policies face other potential gaps as well. Currency devaluation and coinsurance deficiency are two common exposures that global property buyers may only be protected from when a CMP is properly structured.

For example, what might happen if a country devalues its currency, as Argentina did in 2002? That could potentially leave a client with property in that country that is underinsured because of the devaluation. The currency devaluation provision found on some master policies would provide the difference between the value of the property before the devaluation and after. Failure to obtain this insurance may leave the company with uninsured exposure in the event replacement property must be imported from outside the country where the loss occurred.

Coinsurance deficiency is another real exposure for clients who have facilities abroad. If a loss occurs to insured property and the insurance value is less than that required by the coinsurance or average clause provision on the local policy, a penalty is often imposed in the claims adjustment process. Again, without specific insurance for these exposures, the company will incur additional expenses as they recover from a loss.

One of the advantages of a controlled or coordinated master program is that this kind of program structure can respond to the needs of clients as they continue to grow. Additional country exposures can be added as the insured opens or acquires operations in other locations.

A master policy that is part of a global program also offers companies a coordinated global approach to loss prevention and claims-handling services. Under a master policy, claims handling is controlled by one insurer who works with its own offices or local affiliated companies to make sure that the claim is processed quickly and properly.



When arranging a global program, agents should look for an insurer that has the expertise and ability to place the required insurance in the local admitted markets and write the master policy as well. It is also important to look for insurers that have top-notch loss control and claims-handling services, as well as solid financial ratings and a global network of brokers and insurance affiliates. IJ

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