# INSURANCE SOLUTIONS FOR EXPATRIATES AND INTERNATIONALLY MOBILE EMPLOYEES

This paper provides an insight into the challenges facing employers in providing group insurance benefits to employees whom are either based or working overseas. It also summarises the possible insurance options available to solve the needs of this group of employees.

## GLOBALISATION AND THE GROWING IMPORTANCE OF MOBILE EMPLOYEES

The traditional reasons for sending employees on international assignment have not changed materially in the last 20 years; senior and middle management are sent overseas to run operations, for knowledge and skills transfer, and to develop talent within an organisation.

The number of employees on international assignments doubled between 2005 and 2008 as part of the trend towards continuing globalisation[1]. Even against the backdrop of the current economic environment the dependence on these international placements has not diminished, although the nature of the assignments and the make up of these populations is changing. The flow of talent remains predominately from West to East but companies are now starting to tap into talent pools in the emerging markets and overseas regional centres.

## CHANGES AFFECTING MOBILE EMPLOYEES

**Shorter term** - 'International assignees' are often on 6-12 month contracts supporting project work, to cover a short term need for expertise that may not be available in the overseas local unit.
**Rotators and commuters** - This category of employee is generally only overseas for weeks or months at a time and could be classed as frequent traveller rather than traditional medium term expatriate.
**Localisation** - Traditional expatriate assignments and packages are disappearing as employers look to localise contracts for longer term expatriates and move them to host country arrangements.
**Regionalisation** - The traditional 'head office' home country expatriate being shipped overseas is now being supplemented with regional expatriates from many locations forming part of this mobile workforce (the so called Third Country Nationals or TCNs).

[1] Source: Talent Mobility 2010. PWC

## THE ARRIVAL OF GLOBAL NOMADS

We have also seen the arrival of the true globally nomadic employee - an employee who moves from country to country and is long term overseas from his or her home country. In comparison to the traditional expatriate, this group is often younger, single, and increasingly female. They also tend to be well educated, multi-lingual and are more willing to move location.

These employees do not fit, or are unable to be placed, into domestic host country plans.

Within the oil, gas and extractive industry sector these employees are often on a fixed contract for the duration of a project. They tend to remain in situ (excluding leave) for 3-5 years until project completion, before taking up a new project assignment in another country. These may either be full time employees or skilled employees brought in on fixed term contracts for the duration of the project, but even then, many of these skilled employees remain loyal to one firm and work on a succession of contracts.

In the hotel industry, senior management teams (usually 3 or 4 employees in a single location) will move periodically from hotel to hotel across a country, region or the globe. It is often not practical to establish a local placement for these employees, particularly where they may be on a benefits package different from local employees.

These are just simple examples, but the challenge for the HR professional managing these employees is to ensure that the insurance benefit programmes provide the flexibility to cover such work placements and movements. Even today however, many organisations have no overarching policy for dealing with these mobile employees.

## CURRENT INSURANCE BENEFITS PRACTICE

Current arrangements are often grown out of the historical development of the organisation, and may have not been revisited for many years. Clearly where major subsidiaries exist overseas then the direct employees of these companies will be on local payroll and benefit from local social security provision (if it exists). Employee benefits are in place for these employees based on the local mandatory requirements and may be supplemented with additional benefits/covers that allow an employer to compete for talented resource in that marketplace. The subsidiary will also be taking into account the tax regime in that country and benefit provision is often geared to maximise tax breaks or relief. For example, in the UK there is favorable tax treatment for registered group life and excepted group life arrangements.

There is a group of employees that don't naturally fit, or are too few in number to establish domestic arrangements, and traditionally the majority of US multinationals have 'swept up' these employees in the home company insurance plan. The US domestic placement with a US insurer will, therefore, also cover the short term assignees, US expatriates, mobile TCN employees and even some local national employees of overseas subsidiaries. US insurers have often accommodated this coverage, particularly where it was viewed as de minimis in comparison to the overall size of the domestic employee coverage.

The advantage for the HR management was simplicity and avoided the need to have to consider specific solutions for small populations of employees in multiple locations.

## IS THERE CAUSE FOR CONCERN?

As employees travel the world more, and multinationals invest in emerging economies, support for these employees now goes beyond pure insurance benefit provision. Travel risk, safety, integration of these employees into a location, social awareness education and quality of life for dependants are also considerations.

We are also seeing significant investment in corporate and social responsibility programmes. Employers are looking to harmonise employee benefits and want to ensure employees have appropriate insurance coverage in place with more of a focus on 'fairness', and consistency of treatment than ever before.

The key driver for change is the regulatory environment. Employment law, insurance regulation and tax authorities are changing the regulatory landscape for multinational employers and the insurance companies that service them.

The sands are continually shifting and it is no surprise that governments everywhere are looking to maximise any available tax revenues. Within Europe, for example, across a number of countries we are seeing the introduction of insurance premium taxes on previously exempt group life policies.

The application of insurance regulation and tax legislation is never going to be consistent, and even at a country level the position can be blurred with the two regimes appearing to bring conflicting messages. For example, it may not be permissible under country A's domestic insurance regulation to provide insurance to an employee living and working in that country from overseas, but the tax authorities will allow for a tax on premium for covering such risk in that country from overseas.

Is it still appropriate for a TCN who is employed in country A, is on a work placement in country B and whose home base is country C, to be covered under a US insurance contract with insurance benefits designed with only US domestic coverage in mind?

Much can depend on the nature of the insurance, from where cover is purchased to the type of employee being covered. Some domestic insurers and the insurance regulations under which they operate will not permit coverage of foreign nationals in the domestic insurance contract.

With this uncertain back drop many US insurers and their reinsurers are adopting a more cautious approach in allowing international risks to be covered in the US domestic insurance arrangement. On smaller placements or where the international exposure is in higher risk countries (which is often classed as anything outside Western Europe) then coverage is often refused with the problem landing back at the feet of the HR Manager.

## WHAT ARE THE OPTIONS AVAILABLE?

The old adage of 'one size fits all' clearly no longer applies. Depending on the circumstances, there are a number of options available in the marketplace, and it may be appropriate to make use of one or more of these options to create an effective and efficient insurance programme.

## CONTINUED COVERAGE WITHIN THE US HOME PLAN

A US insurance contract remains the most appropriate arrangement for employees of a US multinational whom, regardless of location, are employed on US contracts of employment with US insurance benefit provision.

This group may include employees on temporary assignment overseas (rotators, commuters) and longer term expatriates who remain on a US contract and US payroll but work overseas (this may also include non US citizens).

### THE IMPORTANT CONSIDERATIONS:

**Confidence in the insurer –** The insurer needs to have the expertise, or have immediate access to the expertise, in assessing the international insurance risks. The insurer also needs to have the insurance capacity and appetite for such risks, and be backed by reinsurance cover. They must also be able to manage claims effectively from a number of foreign jurisdictions.

**Continuation of coverage** – It is often difficult to track movements of short term assignees, and the employer simply wants comfort that within the arrangement these US employees have 24/7, 365 day coverage, regardless of physical location. By holding them in a single plan, it removes the administration headache of moving employees between insurance placements as they step outside or return to the US and removes the risk of employees falling between coverages.

**Consistency of benefit plan –** These employees are subject to US contractual conditions.  Having them included within a single plan, with the same administration service keeps them consistent with their peer group employees. This includes supplemental cover and online registration for benefits.

**Purchasing power** – The employer can benefit not only from the purchasing power of the combined placement, but from the experience rating of the entire group. Again this allows for a simple administration approach. A US expatriate is not subject to higher premium rates on supplemental cover because his insurance cover was arranged under a separate agreement.

**No minimum rules** – There is no restriction linked to the number of employees in this distinct group classed as 'overseas' and a single employee on a short term expatriate placement can be covered under the wider insurance contract.

**Portability and continuation options –** These employees will tend to return to the US (change of employer, in event of sickness, etc.) and can benefit from the portability and continuation options offered under the US home insurance plan.

# INTERNATIONAL GROUP INSURANCE PLANS

An international plan is often the most pragmatic solution for covering a mobile workforce that is employed outside the US on overseas payroll and don't naturally fit into large domestic insurance arrangements.

International plans are flexible, can accommodate a range of benefit design and can provide coverage based on a single global package, regional variances or a set US benefit design.

### THE FOLLOWING CLASS OF EMPLOYEE IS OFTEN COVERED WITHIN AN INTERNATIONAL PLAN:

- Non US expatriates and the 'global nomads'.
- TCNs that do not fit in the home or host country arrangements.
- Employees in territories where a local plan may not exist or is not considered appropriate for one or more of the following reasons:
    - The local insurance market in an emerging country is simply not developed.
    - The small number of employees do not justify a local arrangement or the number fails plan size minima for a local arrangement.
    - Insurance providers may fail the selection process (credit worthiness, reputation).
    - The benefit design required is not available or does not provide the required level of coverage.

### SOME OF THE ADVANTAGES ASSOCIATED WITH AN INTERNATIONAL PLAN:

**Regulatory and compliance expertise –** The insurers offering international plans have been operating in the cross border insurance market for many years. They are very aware of and adapt to the ever changing regulatory environment.

**Flexibility –** The arrangements can solve multiple benefit designs, multiple currency requirements and multiple location and groups in a single arrangement with the benefit of tailored invoicing and reporting.

**Pool of risk –** Pooling the single arrangement allows for experience rating across the entire group and, if desired, profit share to the plan owner.

**Continuity and certainty of coverage** – The plan accommodates multiple locations and mobility of the employees.

**Insurance expertise** – By virtue of being in the international space for many years the insurers have expert knowledge and efficient claims handling processes for dealing with overseas claims.

**Small groups of local nationals –** International plans are often able to accommodate small groups of local nationals for which there is no suitable domestic arrangement in the host country.

**Language** – The international insurers have in house multi-language capabilities and can often deal in local language.

One should also consider that there is often a tipping point between the advantages of a single international placement, i.e. flexibility, simplicity, single plan design, level of coverage, benefit levels and operational efficiency, and the tax advantages available to a domestic placement with domestic benefit design.

In some circumstance international plans may not benefit from premium relief, and where there are some elements of cross border coverage, withholding taxes or insurance premium taxes may be applied. It is, however, often the absolute certainty of coverage that is the most important consideration.

## MULTINATIONAL POOLING

Does multinational pooling have a role to play?

The answer is clearly yes.  Where a multinational has a number of domestic insurance plans globally for their local national workforces, then these can be combined into a larger experience rated group, eligible for a dividend payment back to the parent company based on the pooled result.

This works well for insurance plans with membership ranging from 20 to 1,000 employees.

As mentioned above it is often difficult to source domestic group insurance placements for small numbers of employees in a country. It is possible within a pooling network to get smaller plan sizes, but 20 lives is usually the cut off point for establishing a local arrangement, and therefore either individual insurance is sourced or these groups end up in international placements.

When domestic plans get much beyond the 1,000 lives mark, then the subsidiary employer has purchasing power and the plan itself can avail of its own experience in negotiation for premium rates, automatic acceptance limits and local profit share.

### MULTINATIONAL POOLING IS WORTH CONSIDERING FOR THE FOLLOWING REASONS:

- **Single point of contact–** A pooling network contact person can arrange for the network insurance partners to provide quotations and run a single pooling simulation.
- **Decision making –** a pooling solution works well if there is a centralised HR strategy and direction is given by head office to the subsidiary companies.
- **Benefits to smaller placements –** Countries with small number of employees benefit from being part of the pool with better terms than if they were standalone, for example, pool level guaranteed issue limits.
- **Control** - the parent company can exercise more control over local subsidiary decision making on local coverage.
- **Local compliance and tax effectiveness** – these important aspects can be dealt with in the local placements.
- **Captive insurance** – the pooled reinsurance model is often an effective administration vehicle for a captive insurance solution.

### THERE IS A LIMITED DOWNSIDE:

- **Inclusion of local plans -** Not all local plans can join the pool, and plans that have claims volatility may be rejected. Larger placements can often negotiate more favourable insurance terms outside a pool arrangement and can be reluctant to join.
- **Supplemental benefits –** Pooling works well for compulsory employer funded insurance (basic cover), but is not appropriate when local plans have employee funded benefits (supplemental cover), and hence restrictions may be applied in pooling this business.
- **Disruption –** If local plans are already in place then pooling can bring significant disruption to subsidiaries if they are required to move insurers.
- **Inconsistent administration –** Every local placement is subject to specific local terms and conditions and administration practices; the experience of employees by country may be very different.

## SUMMARY

With increasing globalisation and a more mobile population, it is vital for employers and insurers to have a clearly defined approach for dealing with an ever increasing mobile workforce.

Every jurisdiction presents different regulatory requirements that need to be taken into consideration when arranging coverage for your most important asset, your employees.

Including international risks in a US domestic arrangement may no longer be the appropriate solution.

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