HOW A CAPTIVE CAN HELP TO IMPROVE THE SOCIAL OF ESG

Zurich's head of captive services Paul Woehrmann and employee benefits captive specialist Reto Heini discuss how a captive can be deployed to improve a parent's performance on social issues

Climate change and related disasters were the key drivers for environmental, social and governance (ESG) considerations rising to prominence recently, and therefore it is no surprise to see how much we have advanced on defining global standards to measure the environmental footprint of an organisation.

But how about the social part of ESG? Even though there is a lack of standardised metrics to assess a company's social behavior, many organisations have already started to incorporate social factors into their processes and decision taking. The coronavirus pandemic helped advance the agenda by making stakeholders worldwide have a closer look at how companies manage human capital and related factors. This trend is continuing, albeit the focus is changing more to reflect the views of the new generation of workers, who have clear and often different approach about the companies they want to work for, invest in or consume from. Companies need to recognise these changes and adapt to them, as the rush to recruit and retain talent in a highly competitive labour market gathers pace. In other words, it's only a question of time when the social aspect of ESG will reach similar level of attention as the environmental piece.

Social factors come in many different forms, and before we look at how a captive can help support their parent organisation to meet social goals, we should quickly look at some of the areas that make up the social pillar of ESG.

Paul Woehrmann

Paul Woehrmann is head of captive services Europe, Middle East, Africa, Asia Pacific and Latin America, and was ranked the third most influential person in the industry by Captive Review in 2017. He has now also been recognised in the prestigious Hall of Fame. Woehrmann has been with Zurich for 30 years and leads a team of experts located in several countries across the world.

Reto Heini

Reto Heini is an employee benefits captive specialist at Zurich Global Employee Benefits Solutions. He has over 25 years of experience in the insurance and consultancy industry. Heini also has a background in both life and non-life business and has spent the last 23 years working in the employee benefits field of captive and global underwriting programmes.

Social themes are various and diverse and, among others, include subjects such as wage and benefits equality, wellbeing of employees (physical, mental, financial and social), human rights, employee engagement, training and workforce development, health and safety conditions, privacy and data security, supply chain labour standards, access to healthcare, and diversity, equity and inclusion (DE&I).

DE&I is currently of particular interest since it can directly impact the profitability of a business. A diverse, equitable, and inclusive environment makes all feel involved and supported and helps employees become more committed, creative, innovative and engaged, which again has a positive influence on trust, confidence and productivity. It helps the employees to better cope with challenges such as failures and change and even tends to reduce absenteeism through better health. It furthermore impacts employee retention and can improve a company's ability to attract new talented employees.

These are all factors driving the competitiveness of a company. Another important subject is equality, be it through addressing high profile remuneration inequalities like the gender wage gap, or aspects related to ethnicity, age or hierarchical benefit structures within a company, which may be accentuated within certain organisational units or divisions and the countries of presence.

We know of one customer that discovered the existence of a benefit gap inequality after a plane crash claimed the lives of two managers. They were resident in different countries but had boarded the same plane to attend a meeting. The two managers had the same roles in their respective countries and both also had young families, but only one of them had life insurance cover from the company. At this point, the customer decided to review their global employee benefits arrangements to ensure that irrelevant of where employees worked, there would be a global minimum life cover amount provided.

An employee benefits captive can help coordinate this activity for customers with locations around the world by getting detailed information from their local fronting insurer and making sure the cover complies with the global minimums set. Benefit gaps are more common than one would expect and not just down to whether a cover is or is not provided, but also what exclusions or limitations may apply. Many companies are decentralised when it comes to employee benefits and head offices often may not know what levels and breadth of cover are provided locally. This just increases the risk that depending on the country of residence, employees are not treated equally.

One captive customer, for example, asked us to match existing local benefit design, but also wished to consider the following to be implemented:
• Minimum Lump Sum Death in Service Cover of four times salary;
• The risks Suicide and HIV to be included from day one of cover;
• Medical underwriting: pre-existing conditions exclusions were to be waived;
• The level of sum insured to be set so no underwritten high-income earners.

In several countries the terms requested went beyond those that would be available locally, but by using their captive the customer was able to implement the local policy design changes where required and was able to help the local businesses with any extra financing costs.

Next to life cover, one can also implement a minimum disability coverage. One important consideration is countries with annuity style benefits where the cover is often integrated with the local social security system and possibly occupational pension scheme. Levels of benefit from local social security vary dramatically not just in terms of amounts, but also regarding when they are payable; the degrees and definitions of disability and duration of payment – so unlike in a local life policy scheme, a customer cannot say they will introduce, eg a benefit of 40% of salary for everyone. This is because when state benefits are taken into consideration, some people might be over-provided and others under-provided. Over-providing should be avoided as this could set an incentive for employees not to return to work.

The solution here might be to apply a more general philosophy to ensure all the

EXAMPLES OF HOW TO USE A CAPTIVE

Eligibility and coverage exclusion	Line of coverage	Consideration
Coverage for partner (same or opposite sex)	Life and medical	Extend eligibility definition: Need to agree on common wording where local providers do not have their own filed pre-agreed wording
Termination of cover due to age limit	All lines	Employees should not be excluded from participating in benefit programmes based on age unless otherwise covered
Behavioral health – specialty psychiatric care	Medical	Removal of exclusions/shortening of waiting periods for access to psychotherapy/counselling /psychiatry crisis care and stabilisation
Medical services related to gender affirming care	Medical	Removal of exclusions from medical plan. Provide evidence-based medical services, including medical, mental and reproductive health and preventive care

employees have an income from all sources of no less than 65% of their pre-disability salary in the event that accident or illness renders them unable to work, payable up to normal retirement age or, where not, for a minimum period of perhaps five years. This then allows the local subsidiaries and their consultants/insurers to translate the head office instructions into adequate local disability benefits.

If it comes to DE&I, the differences between the countries tend to be even more substantial and are subject to constant changes and cultural sensitivities. Customers therefore often define particular targets and then ask the consultants or insurance networks to help them to compare the current covers with their goals. Some of their questions are about the policy wordings such as:
• Does the definition of dependent in the current policy include common law partner and same sex partner?
• Does the definition of family or parent include same sex couples ?
• Is the policy wording gender neutral or gender inclusive?
• Can a same-sex partner be the legal beneficiary in this country? If not, how can the insurer/captive manage this in the policy wording or otherwise?

Once the assessment has been done and requests defined, the global instructions tend to be as seen in the above table.

Some requests may differ substantially

from industry to industry, as a pharmaceutical captive customer may want to make sure that vaccinations are always covered and another company might want to offer additional diagnostic benefits or special cancer treatments.

Unsurprisingly, the covers nevertheless very much depend on the specific culture in a country. As a general rule of thumb, DE&I matters tend to be more important in Western countries than in others. That said, even in countries where cover for same sex partners, for example, would not normally be possible, creative policy wordings may be able to facilitate the cover where this can be agreed with both the local insurer and the captive.

Conclusion

We see companies placing greater emphasis on the social part of ESG and expect it to become even more important in the future. Captives working together with HR professionals can help global companies agree and implement minimum benefit levels into their local schemes. Insurer networks already have experience in implementing such structures and can provide a vital link between the local and global customer and consultant stakeholders.

Also, captives can truly be key to helping a customer implement improvements on equality and DE&I matters, in many cases facilitating employee benefits cover which would otherwise not ordinarily be available locally.