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MULTINATIONAL COMPANIES – RISKS IN ABUNDANCE

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For multinational companies, wherever they are based around the globe, navigating the global risk landscape is becoming anything but straightforward. Apart from a very slow-to-digest pandemic, these multinational organizations are dealing with a range of challenges including supply chain issues, inflation, and workplace talent shortages, not to mention possible consequences from the regional conflict arising of the conflict between Russia and Ukraine.

Brokers and underwriters who are trying to help these multinational policyholders assess, mitigate and transfer part or all of their risks in this ever-changing environment are similarly faced with highly complex and shifting scenarios.

Several experts say that the prevailing cost pressures, increased taxes, and regulations make operating on the global stage more complicated today than in the past. In addition, multinationals are facing a period of rapid digitization brought on by the pandemic. While this has without a doubt accelerated efficiency, provided new revenue opportunities, and introduced more expedient ways of working, there are very obvious risk downsides.

First of all, cyber threats have shot up the risk rankings published by major industry players, for example. Against this backdrop, risk managers are facing persistent price increases as insurance rates continued to increase in the first quarter of 2022 (cf latest global insurance index from Marsh). That marked the 18th consecutive quarter of rate increases in the commercial property/casualty insurance marketplace, albeit rate hikes are decelerating for many lines. In this environment, it should come as no surprise that multinational companies are seeking every available edge to manage costs, create efficiency, and ensure consistency in the way their operations are protected.

The good news is that many options are available to these multinational organizations as they explore how best to manage and transfer their risks in this challenging insurance market. Demand for global insurance programs is on the rise as buyers with international activities and operations seek to manage their exposures around the world. For many, these programs can be a suitable and cost-effective option. Captive insurers, which have long been used by multinationals when coverage in the commercial market cannot be found or is not available at an affordable price, are also seeing greater use. While some are dusting off existing captives and increasing their retentions to offset the increase in rates, others are establishing captives for new lines of coverage, with many reporting growth in financial lines and cyber risks in captives.

Meanwhile, organizations are faced with highly complex environmental, social and governance risks, with their actions on climate change, energy transition, diversity and inclusion, cybersecurity, and sustainable investing increasingly under the microscope. For multinationals that are operating in multiple countries with cultural differences, the need to address Environmental, Social, and Governance (ESG) issues is perhaps even more relevant and complicated. Companies are increasingly obligated to apply these non-financial factors as part of their analysis process to identify material risks and growth opportunities. Brokers report that larger clients are more frequently seeking advice on how to handle ESG risks, and several insurance initiatives have been introduced that would reward those with superior ESG frameworks, such as in the Directors and Officers (D&O) liability arena. However, more delicate risk management and transfer solutions are expected to be needed as global businesses in different sectors look to address ESG going forward.

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