



## Multinational pooling

Multinational pooling offers clients the potential to realise economies of scale and to reduce the cost of their employee benefits provision through the payment of multinational dividends. In effect, a global profit share arrangement is created. The facility also offers the client's headquarters access to information in respect of the benefits provided by its individual pooled policies.

### What can be pooled?

In the UK the following employee benefit contracts may usually be pooled:

- Group Life Assurance
- Death in Service Pensions
- Group Income Protection
- Group Critical Illness
- Group Private Medical Insurance\*

In some countries pension plans and other employee benefits such as dental insurance may also be pooled.

### Multinational pooling networks

A multinational pooling network consists of a number of insurance companies located in different countries around the world and is either independent or owned by an insurer. Independent networks generally have a wider geographical coverage and have the ability to select the leading insurers in each country as local partners.

### How does pooling work?

Multinational pooling is available to multinational organisations who have insured employee benefits in two or more countries. The organisation places their insurances with the multinational pooling network partner in each country. These policies are then combined to form a multinational pool.

Importantly, in each country policies remain insured with local insurers and so benefit from local terms and conditions, administration and claims settlement. Premium rates are set locally by insurers, who compete on a price and service-driven basis in each country. In addition, multinational pooling networks usually have a network partner (i.e. an insurer who forms part of the network) who specialises in insuring third country national and expatriates, simplifying the process of obtaining such insurances.

At the end of each reporting period, multinational "second stage" accounting is carried out, where claims and expenses for each country within the pool are offset against premiums, to calculate the overall surplus or loss to the pool.

\* Not offered by Canada Life in the UK



## How much does it cost?

There is no additional charge to the multinational organisation or its local subsidiaries for pooling and, on average, multinational pools have produced dividends of approximately 15-20% of premiums over the long term.

## An example

In the following example a surplus of £56,000 occurs in the UK policy. If the policy is not pooled then the surplus would be retained by the UK insurer, from which risk and operating costs would be deducted, with the balance being the insurer's profit margin.

### Local accounting – UK non-pooled scheme

Income	
Premiums	£100,000
	<b>£100,000</b>
Expenses	
Claims	£40,000
Commission	£4,000
	<b>£44,000</b>
<b>Surplus (Loss)</b>	<b>£56,000</b>

If, however, the policy is pooled, a second stage account is prepared by the multinational pooling network, which summarises all of the contracts participating in the pool. If a surplus is achieved this is returned to the multinational as a multinational dividend. An overall loss is either written off by the network partners collectively, or it can be carried forward as a first charge against surpluses that arise in subsequent years (depending on the type of pool – please see over).

### Multinational (second stage) accounting – using a common currency

Income	UK	France	Germany	Total
Premiums	£100,000	£100,000	£100,000	£300,000
Interest	£2,600	-£1,800	£4,800	£5,600
	<b>£102,600</b>	<b>£98,200</b>	<b>£104,800</b>	<b>£305,600</b>
Expenses				
Claims	£40,000	£120,000	£40,000	£200,000
Commissions	£4,000	£5,000	-	£9,000
Administration charges	£6,500	£7,400	£10,300	£24,200
Risk charges	£4,400	£4,000	£3,500	£11,900
	<b>£54,900</b>	<b>£136,400</b>	<b>£53,800</b>	<b>£245,100</b>
<b>Surplus (Loss)</b>	<b>£47,700</b>	<b>-£38,200</b>	<b>£51,000</b>	<b>£60,500</b>

In second stage accounting, expense items are included. Interest may be added as an income item and the network partners retain both administration and 'risk' charges as expense items. Risk charges are used to cover certain losses that insurers (rather than the pool account) may bear, which are dependant upon the type of pool selected. If an overall loss occurs then the treatment of any losses is dependent upon the structure of the pool agreement. In this example, after administration and risk charges, the UK produces a surplus of £47,700.

Once all other countries results have been taken into account, the result is an overall surplus of £60,500 – despite losses of £38,200 in France. This surplus is made available for distribution to the multinational organisation as a multinational dividend, and is usually distributed by the parent organisation amongst its participating subsidiaries.



## Types of pool

Typically, multinational pooling networks offer three types of pool, which provide different levels of protection. The most suitable type of pool for each multinational organisation is determined according to their size and attitude towards risk.

All types of pool offer protection to the multinational organisation against high value individual claims (usually by imposing a limit on the maximum paid by the pool in respect of any one claim) and, in some instances, the overall level of claims occurring in any one reporting period. Claims are paid in full on a local basis, however amounts in excess of the network's pooling limits are not included in the pooling account. This reduces the volatility of results and helps to ensure the stability and viability of pooling in the long term.

The types of pool commonly offered are:

- Loss carry forward
- Stop loss
- Multiple employer

## Loss carry forward

For large multinational organisations, a loss carry forward basis may be the most attractive as the surpluses in claim-free years can be as high as 85% of premiums paid. Any losses, however, are carried forward to the next reporting period to be deducted from any potential surplus, making this a higher-risk, higher-reward option than other types of pool. As such, this type of pool may not necessarily be suited to multinational organisations who are risk-averse.

The loss carry forward basis may therefore suit very large multinational organisations employing several thousand individuals, who would expect to have a reasonably stable claims rate, as it offers them a solution close to self insurance whilst protecting them against high value claims.

## Stop loss pools

Stop loss pools offer the protection of any losses being absorbed by the network partners at the end of each reporting period. Consequently, they offer greatest benefit to multinational organisations that are more likely to experience greater volatility in claims or are more risk averse.

In claim-free years the typical dividend could be around 70% of premiums paid, reflecting the higher risk charges levied by the network partners for this increased level of protection.

## Multiple employer pools

The multiple employer pool is suitable for multinational organisations with a smaller number of employees, for which greater volatility in claims is likely.

Typical dividends in a claim-free year can be 25% of premiums paid. Any surplus or loss depends upon the aggregate result for all the multinational organisations participating in the pool, and it offers the protection of operating on a stop loss basis – losses being absorbed by the network partner at the end of the reporting period.

## Canada Life as a network partner

Canada Life is one of the leading group insurance providers in the UK, and has offered multinational pooling since 1994. It participates in two of the top three independent pooling networks – The International Group Program (IGP) and Insurope Multinational Benefits Association.

Our forms are available to download from our website: [www.canadalife.co.uk/group](http://www.canadalife.co.uk/group)

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