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MULTILATINAS – GOING GLOBAL

Bruno Laval of **XL Group** explains what multilatinas need to know and how best to enter the global insurance market

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For multilatinas, after years of growth within the region, both organic and through cross-border M&A (mergers and acquisitions), it's time to stake a greater claim in the global market. To maximise their resources and protect them, these companies need global insurance programmes with carefully integrated local policies.

It's simply an incredible time to be a multilatina. According to the HSBC 2013 research report, 'Rise of the Multilatinas', flows of foreign direct investment from Latin America surged 30-fold since 1992, to $3bn in 2010. Most interestingly, the report highlights that while about 70% of foreign direct investment (FDI) from Latin America flows within the region, today more Latam FDI is flowing to Asia and Africa than to the United States and the European Union. At the same time, the Pacific Alliance created by Mexico, Colombia, Peru and Chile – and the trade agreement their presidents signed this year – created a free market with nearly 220 million consumers. If considered as a whole, the alliance represents the world's eighth largest economy and seventh largest exporter.

Whether they're already going global or only multinational, this trend is set to continue, with 88% of multilatinas saying in a 2012 study that they plan to explore new markets over the next three to five years. However, these companies are not very global yet and are hardly represented among the emerging markets' 25 largest companies.

One of the reasons mentioned for the still limited globalisation of multilatinas is a risk-averse culture. Yet progress means risk. And as multilatinas move to take a greater stake of the global market, protecting their assets will become increasingly critical. Insurance protection and especially global programmes should play a central role in enabling the rise of the global multilatinas.

Progress means risk

Moving into new markets and territories can be risky business. If exporting, different regulations could impact the liabilities a company faces in relation to its products. When establishing operations in new markets, local regulation will impact a company's premises, working practices and staff. Large projects mean large and also complex risks. Whether it's about protecting property or people, avoiding negligence claims or protecting operations against political violence and war – identifying and reducing the risks with appropriate insurance coverage can be a key element in making expansion possible.

Global programmes

A global programme can encompass risk coverage for physical assets, people, business interruption, transport, product recall, third party and commercial liabilities as well as for environmental liability.

An insurance structure involving a master policy in one country with one or more local policies issued in another country or countries, gives multinational companies appropriate and relevant cover in each market/jurisdiction where they operate.

But global programmes are about more than a policy wording. Information about different markets' tax and regulatory landscape, issuing policies in time so that projects can commence and products be delivered, and managing claims efficiently are all part of effective global programme services.

Building a risk management culture

A global, experienced insurer can help expanding but risk-averse companies to build a risk management culture. Being able to view and analyse the company's exposures on one single platform can support effective centralised risk management, while risk engineering consultancy can help loss prevention and reduce the cost of risk.

Before operation, check out the law of the land

With strong capital positions and the experience of expansion within their region, multilatinas are well placed to continue into global expansion. However, avoiding legal disputes and further strengthening risk management practices are the wise next steps.

It pays to investigate the regulations in a new market carefully, before launching operations there. Check contracts. Do they comply with the letter of the law in the new market? Are they enforceable there? What about building codes and working practices? Are they aligned with local regulations? And what about your insurer? Is their licence, or your broker's licence, valid in that market? If not, your policies could be void there. Can that large construction project benefit from surety coverage? What about cargo that is lost, stolen, damaged, or even confiscated? With a supply chain spanning several countries, every link needs to be examined. Cyber risk also increases dramatically the more globally connected a company is.

International expertise and local insight

Risk coverage in a multinational operation requires the careful integration of highly specific local policies and global commonalities. This keeps costs down in a global programme. There is a lot of capacity available to multilatinas, but companies should work with an insurer who can offer both global, technical expertise and deep local market knowledge.

At XL Group, we currently participate in more than 2,400 global programmes. This requires close collaboration with many types of multinational companies. Of the 1,700 global programmes we lead, one third has a policy in Latin America. Able to serve clients in more than 140 countries, we are ready to support Latin American companies as they grow and expand within and beyond the region. ■

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