



## Global Programme and Reverse Flow Business relating to Brokers and Company (Re)Insurers in the London Market

### Contract Certainty Guidance - September 2018

#### 1. Introduction

- 1.1. It is common for multinational organisations to manage their insurance risks across their entire geographical entity and, where possible, to consolidate their insurance arrangements so that there is similar coverage worldwide for the entire group. There are administrative efficiencies and associated cost savings to this approach, with the additional advantage of consistent cover for the whole organisation, irrespective of location.
- 1.2. The above arrangements are often effected by way of a Global Programme. This guidance describes the features of such arrangements from a (re)insurer perspective, and their potential implications under the CC Code of Practice.

#### 2. Definitions

- 2.1. **A Global Programme** is a policy placed with the relevant group company of a multinational insurer, usually in the country in which the client multinational's parent is domiciled. A 'master policy' is issued by the insurer, which contains umbrella terms and conditions applicable to the insured on a worldwide basis. The programme will involve other group companies of the insurer, in locations that coincide with those of the insured, in providing some or all of the umbrella terms and conditions, but subject to any adjustments or additions that may be necessary to meet client needs and / or local jurisdictional requirements. Under the terms of the master policy, the group companies are often automatically reinsured for these risks by the original issuing company of the insurer.
- 2.2. **Reverse flow** is the term used by the local group companies in 2.1 above to describe the mechanism and / or categorise the business under which an automatic reinsurance is provided by another company in the same group under a master policy for a global programme. Other non-related insurers may also use this term where they are offered risks emanating from the global programme in instances where group companies are unable / not available to meet requirements in some locations, but will also be reinsured automatically (see 3.3 below).

### 3. Global Programmes with a UK Master Policy

#### 3.1. The Master Policy

In these circumstances, the 'master' policy is commissioned, placed and issued in the UK. For example, a UK based multinational may instruct a UK broker on a global property policy for its premises throughout the world. This could be placed with the UK company of a multinational insurer, which would issue the master policy in the UK. Under these arrangements, ***the master policy is clearly subject to the CC Code of Practice.***

#### 3.2. Overseas 'Local' Policies

The client may wish to have local documentation evidencing the programme, for some or all of its overseas locations. Moreover, some countries require the insurance to be taken out in those countries, as global programmes originating outside of those countries are not admitted. In these circumstances, the UK insurer will instruct its local group company (or affiliated partner or insurer) in those countries to issue a local policy under the master and which may be or is automatically reinsured (reverse flow) back into the UK insurer.

3.3. If the global programme is not admitted in (some of) those countries, and the UK insurer does not have a local affiliated company, it may seek (a) local insurer(s) to issue a policy to the client in those countries, again normally providing an automatic reinsurance (reverse flow) back to the UK insurer.

3.4. As these are policies issued outside of the UK and under relevant local jurisdiction, ***the CC Code of Practice does not apply*** - although many of the principles will have been met by virtue of the UK master.

### 4. Global Programmes with an Overseas Master Policy

#### 4.1. The Master Policy

In these circumstances, the insurance instructions are issued by a multinational client outside of the UK and placed with the local group company of a multinational insurer. As the master policy is issued outside of the UK and under relevant local jurisdiction, ***the CC Code of Practice does not apply.***

#### 4.2. UK 'Local' Policies.

Here, the UK group company of the overseas multinational in 4.1 above is effectively in the position of the local group company described under 3.2, but will normally be subject to FCA regulation and the CC principles. However, due to the limitations imposed on the group company by a combination of the overseas global programme origination, existence of the overseas master policy, remote placement process and ceding (reverse flow) arrangements, ***the CC Code of Practice cannot be applied.***

4.3. In some instances, the UK group company may be granted the flexibility to adjust some of the terms of the master, negotiate local cover variations and retain the risk on its own book (no reverse flow).

If these arrangements involve UK placement and risk acceptance elements, then **the CC Code of Practice will apply.**

- 4.4. If another (non-group company) UK insurer chooses to accept the risk in the circumstances of a 'local insurer' under 3.3 above, a separate UK placement process will be involved, to which **the CC Code of Practice will apply.**

## 5. Summary

- 5.1. The conclusions of the above circumstances in relation to Contract Certainty are:

### **Global Programmes with a UK master policy**

Master Policy – CC Code of Practice applies (in scope)

Non-UK Local Policy – CC Code of Practice out of scope

### **Global Programmes with an Overseas master policy**

Master Policy – CC Code of Practice out of scope

UK Local Policy within Programme:

- CC Code of Practice out of scope (see 4.2 above), or
- CC Code of Practice applies (in scope - see 4.3 above)

UK Local Policy outside Programme – CC Code of Practice applies (in scope – see 4.4 above)

## 6. Recording and Measurement

- 6.1. The Contract Certainty Exceptions Guidance published in April 2006 and republished in September 2018 outlines the basis for exceptions recording. Exceptions in this context are *failures* if the CC criteria are not met, and are therefore recorded as such for inclusion in overall CC performance statistics.
- 6.2. Global programme business that is **in scope** should be treated in accordance with 6.1 above. Global programme business that is **out of scope** should be recorded as a separate category and excluded from overall CC performance statistics. Assessment criteria will clearly be needed to substantiate its categorisation and exclusion.
- 6.3. Global Programme CC exclusions arise from the inherent limitations placed on the UK insurer in the initial and / or local placing process. Insurers should nonetheless continue to make their CC obligations understood and encourage their overseas counterparts to adopt the best practice exemplified by the CC Code of Practice. It will be appropriate for firms to record evidence of their activity in this area.