WELLS FARGO INSURANCE

Emerging regulatory trends in the international insurance market place

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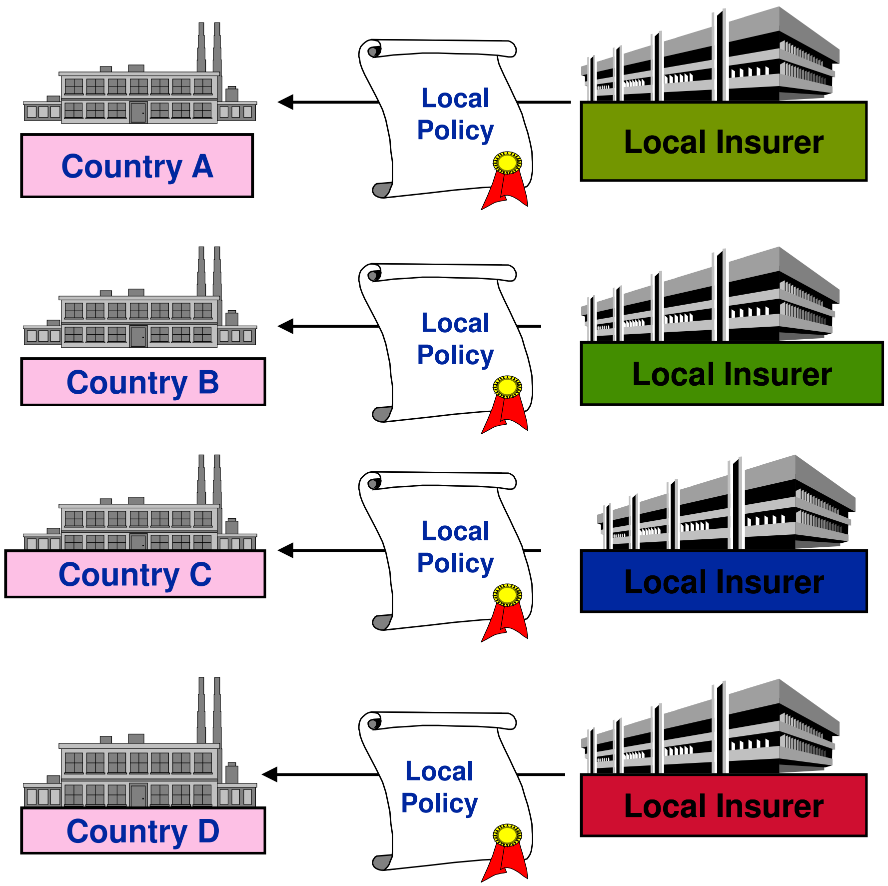
Together we'll go far

Terminology: Local admitted policies, DIC/DIL, and controlled master policies

Local entity buys local admitted insurance in non-U.S. locations

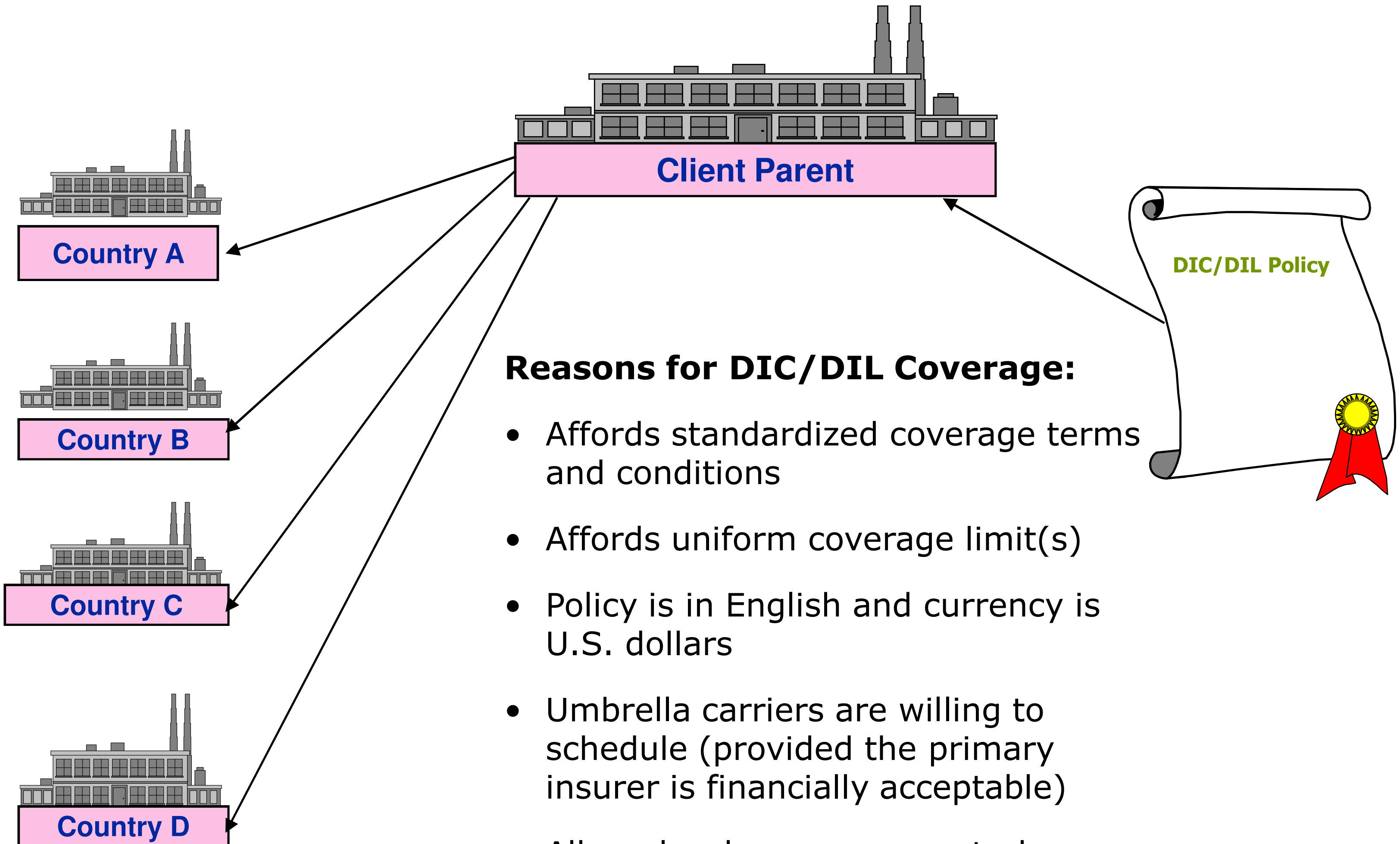


Reasons for Admitted Coverage:

- Local country law may prohibit non-admitted coverage
- Premiums and losses paid locally (insulation from exchange rate fluctuation)
- Required by local lenders or financial institutions
- Doing work for a governmental entity
- Local policy recognized by Local Courts
- Local policy may contain endorsements customary to the local market

DIC/DIL Policy

Policy issued to parent company with no local policies

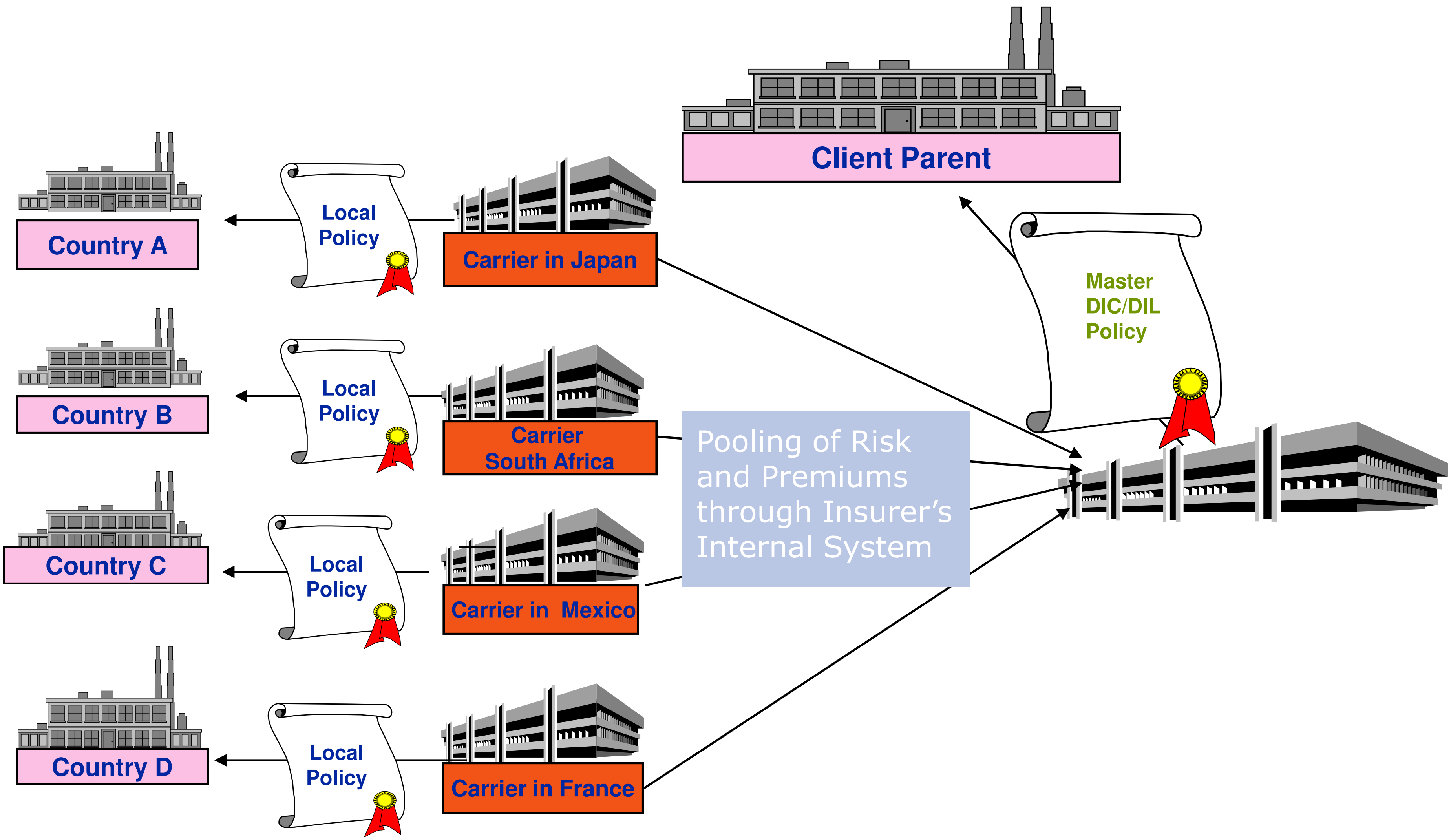


Reasons for DIC/DIL Coverage:

- Affords standardized coverage terms and conditions
- Affords uniform coverage limit(s)
- Policy is in English and currency is U.S. dollars
- Umbrella carriers are willing to schedule (provided the primary insurer is financially acceptable)
- Allows local managers control over local insurance procurement

Controlled Master Program

A Master DIC/DIL Policy and one or more Local Underlying Policies



Typical international program goals and priorities

- Centralized program control
- Seamless coverage - avoid gaps
- Program consistency - contract/execution certainty
- Leverage purchasing capacity
- Control and reduce costs

What is not usually contemplated?

Assumption of regulatory and tax risk.

International insurance and regulatory landscape

- No global regulation
- Minimal international coordination amongst regulators
- Most industrial nations (and many emerging nations) have established regulatory regimes

*Result: Material hurdles to designing and implementing a **compliant** multinational insurance program*

International regulatory developments

- Increase in number of countries that limit or prohibit non-admitted insurance
  (e.g., Argentina, Brazil, China, France, India, Italy, Mexico, Russia)
- "Friendly" countries still have rules
- Primary driver - collection of appropriate premium taxes
- Staying abreast of the changing landscape of international regulations

Premium allocations

Implications for insurer and insured

- Common to allocate "master policy" premiums to subsidiaries
- Allocated premiums must be commensurate with the risk insured
- For allocated premiums, taxes must be collected and remitted
- Local office often has to be able to evidence coverage
- Allocation can occur at the state/provincial level

Penalties for regulatory violations

- Potentially impacts insured, insurer and broker - must act as team
- Monetary and civil penalties in many countries
- Criminal penalties in many others
- Frequency of local audits are increasing - many regulators will re-allocate premiums

In summary

- The cost of regulatory and tax compliance isn't always contemplated...but should be.
- Designing, implementing and administering a multinational program requires teamwork amongst the insured, insurer and broker.
- International regulatory cooperation may bring more consistency but will also bring more visibility and scrutiny.
- Structuring a multinational insurance program should focus as much on compliance with local laws as it does on addressing the risks insured.

Questions? Comments?

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