Brighton NEWSLETTER

You insure, We ensure

Editor's Note

2020 was a year of adapting. 2021 was a year of living with new normals. Let's make 2022 a year of optimism and positivity.

Staying positive and optimistic promotes good mental health. But for many, this is easier said than done, especially during times of crisis like the present one. In this issue, the article on the state of mental wellbeing shares some interesting insights into mental health and its economic costs to a nation.

But as the pandemic brings a sharp focus on the issue of mental health and wellbeing, employers are pressured to redesign employee benefits plan to better suit the current needs of employees. This brings to fore the huge prospectives for employee benefits captives, in lieu of the rising health insurance costs and decreased underwriting capacity. Our article on 'Meeting Changing Expectations on Employee Benefits' highlights some of the advantages of using captives to insure employee benefits programmes.

2022 will be another busy and challenging year. The implementation of a global minimum tax and emerging geopolitical risks are just some of the many highlights that will keep everyone on their toes. Despite this, I am confident that we can look forward with optimism that the Year of the Tiger will be brimming with opportunities and prosperity.

Annie Undikai,
Managing Director

Global Minimum Tax & Its Implications

On December 20, 2021; the Organisation for Economic Co-operation and Development (OECD) published a model legislation for a new global minimum tax regime, known as the Global Anti-Base Erosion (GloBE) or referred to as the Pillar Two Model Rules. This is part of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), which members of the Inclusive Framework have been working on to deal with tax issues arising from the increasing digitalisation of economies.

Since 2019, the OECD has been seeking to find a comprehensive, consensus-based solutions to the tax challenges of a digital economy. This comes amidst debates as to whether the current international income tax rules that were developed more than a century ago, remain fit for purpose in the modern global economy that is becoming increasingly digital.

According to the OECD, three important phenomena facilitated by digitalisation – scale without mass, reliance on intangible assets, and the centrality of data – pose serious challenges to elements of the foundations of the global tax system.[1]

Working together within OECD/G20 Inclusive Framework on BEPS, a total of 141 countries and jurisdictions agreed on a two-pillar tax reform plan, which seeks to implement a global minimum tax as well as address the challenge of taxing the digital economy.

Pillar One focuses on partial relocation of Multinational Enterprises' (MNEs) consolidated profit to where they do business and earn profits, even without a physical presence, rather than their home countries. Under Pillar Two, a global minimum effective tax rate of 15% is to be introduced.

With the released of the Model Rules, 137 countries have agreed to enforce the Pillar Two of global minimum tax rate on profits earned by MNEs in each jurisdiction where they realise profits.[2] However, in the event that the effective tax rate is below the minimum 15%, home government of the MNEs can apply a "top-up tax", thus eliminating the advantage of shifting profits. The agreement calls for countries to bring it into law in 2022 so that it can take effect by 2023. The minimum tax will apply to MNEs with revenue above EUR750 million and is estimated to generate around US$150 billion in additional global tax revenues annually.

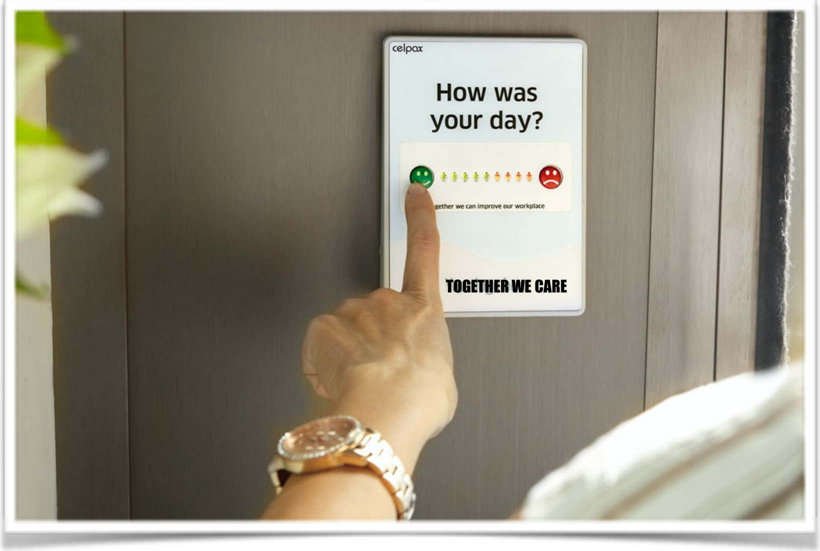
What is the implication of the global minimum tax rate? First of all, the global minimum tax aims at ending the so-called "race to the bottom" where countries compete against each other to cut taxes to attract businesses. With a global minimum tax in placed, any low tax incentives will be neutralised as MNEs will face top-up tax payments in their home countries under the Income Inclusion Rule (IIR). This means that countries will now have to develop new tools and non-tax incentives to attract investments and remain competitive.

Agreement under the Model Rules will see a shift in the right to tax profits worth over US$125 billion annually to countries where MNEs actually earn profits, most of it to developing countries. This could give governments greater scope to finance crucial pandemic recovery plans, responses to climate change and efforts to achieve the sustainable development goals.

The challenge now is how to efficiently graft the new arrangements onto existing tax regimes and for countries to update their international tax treaties. The changes required are complex and with the date of implementation set for 2023, this creates an extremely tight timeframe given that previous international tax deals took years to implement.

[1] https://www.oecd.org/tax/beps/beps-actions/action1/
[2] https://www.oecd.org/tax/beps/oecd-releases-pillar-two-model-rules-for-domestic-implementation-of-15-percent-global-minimum-tax.htm

Meeting Changing Expectations On Employee Benefits: The Captive Option



The COVID-19 pandemic has forced many employers to rethink their relationship with employees with regard to employee benefits. As health (including mental health) and wellbeing have come into sharp focus, employers are now looking at employee benefits with a wider lens.

A report on 'The Future of Benefits 2020' revealed that employers are likely to offer new additional benefits and services that are aligned with employee benefits needs.[1]

This comes amidst increasing and shifting employee expectations from their employers in the wake of the pandemic. Benefits that improve health and wellbeing, such as access to mental and physical health support, paid time off, programmes that support the wellbeing of caregivers, telebehavioral health services to help employees suffering from stress and anxiety, and access to telemedicine and digital tools, are placed a higher value on workplace benefits. However, such benefits can be expensive, with costs not understood and coverage not always available in markets where it's needed. A survey conducted by Prudential Group Insurance revealed that nearly 8 out of 10 workers now consider benefits programmes that address these needs as a crucial part of their compensation, with many quoted this to be a big reason for them to stay at their job.[2]

In the face of escalating healthcare costs underpinned by a hardening insurance market, tightening insurance capacity and greater pressure for employers to offer more comprehensive benefits; companies have increasingly turned to captive insurance to fund their employee benefits programmes. An employee benefits captive can be structured to provide medical stop-loss, retiree benefits, group term life and long-term disability, and enables businesses to achieve cost reductions and more control over their plans.

There are several key advantages of using captives to insure employee benefits plans. These include better control on risks and claims, greater flexibility to meet the needs of specific employee benefits plans, greater ability to add new coverages or remove exclusions, and it provides flexibility to underwrite, source and bridge any short-term funding gaps.

[1] https://s0.hfdstatic.com/sites/the_hartford/files/future-of-benefits-executive-summary-2020.pdf
[2] https://news.prudential.com/benefits-are-key-to-financial-resilience-american-workers-looking-to-employers-to-deliver.htm

Addressing Emerging Geopolitical Risks

The geopolitical risk landscape has undergone a major paradigm shift over the last decade. A recent report from Lloyd's of London laid out ten emerging geopolitical risks that the insurance industry needs to be aware of and could radically change the relationship between insurers and risk professionals. These are:[1]

- Impact of COVID-19 on geopolitical relationships.
- Greater power rivalry.
- Localism versus globalism.
- Multinationals at risk.
- Terrorism and armed conflict.
- Cyber, technology and the new tech arms race.
- Social discontent and local conflicts.
- Political change.

The report added that as businesses recover from the impacts of COVID-19, innovations will be needed to mitigate these risks. It proposed a series of mitigating actions such as assess supply chain exposure, take actions to safeguard intellectual property (IP) and trade secrets against major cyber-attacks, assign responsibility for the identification and management of geopolitical risks internally, and consider supply chain exposure.[2]

On the other hand, these geopolitical risks offer opportunities for innovation in risk transfer and services in the areas of political risk insurance, supply chain risk management, and parametric solutions. As highlighted during the pandemic, there is a need to protect business activity, rather than solely on physical assets owned by companies. The fact that the insurance industry struggled to protect against supply chain disruptions and disruptions to business operations had resulted in many policyholders not receiving payouts from their business interruption cover.

It is evident that the insurance industry is in need of a paradigm shift to truly address the risk concerns of companies going forward. The modelling of geopolitical risks will also need to be improved to enable insurers to better understand these risks.

[1] https://www.globalreinsurance.com/lloyds-insurers-must-address-emerging-geopolitical-risks/1438757.articl

[2] https://assets.lloyds.com/media/04644d31-d1aa-44e0-be0f-ec83c1bc23c9/Lloyds_shifting_powers_emerging_risk_report_Final.pdf

Global State Of Mental WellBeing

For many years, mental health has taken a back seat due to the stigma that has historically been attached to it. However, the COVID-19 pandemic has elevated collective awareness around mental health and wellness.

According to OECD, the onset of the COVID-19 pandemic has caused a sharp rise in mental health problems – even doubling in some countries – particularly amongst youth, unemployed and those facing financial insecurities.[1]

A recent report by AXA on Mind Health and Wellbeing, shed light into gaps in the current state of mental health, how individuals prioritise their mental health, and the urgency of raising awareness on preventative solutions.[2]

The study, which surveyed more than 11,000 people in eleven markets across Europe and Asia, revealed that only 37% of respondents felt that their employers provided good support when it comes to mind health. The result points to the major role of companies and health care systems in improving the prevention, support, and care around mental health and wellbeing.

The OECD estimates the economic impact of mental illness to be around 4.2% of GDP, whilst the global economic loss is estimated at over US$1 trillion a year. As such, addressing mental health is essential for a country's sustainability, growth and development.

A recent study on the societal costs of mental illness provided evidence to support the hypothesis that increase in mental wellbeing in a population is associated with lower health and social care costs the following year.[3]

Nonetheless, the absent, insufficient or non-affordable coverage for mental health services continues to be a major barrier to seeking treatment. Nearly one in five WHO member countries exclude mental health care from their national health insurance or reimbursement schemes.[4]

What key role can insurers play in promoting overall wellbeing? Insurers have an opportunity to address the mental health concerns of their policyholders through greater engagement so that services can be used preventatively and not just in reaction to poor health. Insurers can also redesign insurance plans to encompass a wider range of mental health services to include prevention, detection, treatment, and management or recovery.

[1] https://www.oecd-ilibrary.org/sites/4ed890f6-en/index.html?itemId=/content/publication/4ed890f6-en
[2] https://www.axa.com/en/press/press-releases/axa-publishes-its-annual-study-of-mind-health-and-wellbeing
[3] https://link.springer.com/article/10.1007/s10198-021-01305-0
[4] https://www.brinknews.com/how-insurers-can-help-improve-mental-health-of-societies/

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Happy
Chinese New Year

2022

May this Chinese New Year bring you happiness, prosperity, good luck & good fortune

From all of us at
Brighton Group