Cross-Border Coverage in the New Age of Expatriate Assignments

Nicholas Dobelbower and Catherine Trombley

Nicholas Dobelbower is a Senior Consultant with Lockton Global Benefits. Based in Washington, D.C., he assists multinational clients in the development, implementation and ongoing support of their international employee benefit strategies. Mr Dobelbower has over 15 years’ experience as a researcher and consultant for private and intergovernmental organizations and has lived and worked in Belgium, France and the United States. He has an MA and a PhD from Duke University and is certified by the Society for Human Resource Management as a Global Professional in Human Resources.

A Consultant with Lockton Global Benefits, also based in Washington, D.C., Catherine Trombley assists clients in the development, implementation and ongoing support of cross-border and international employee benefit strategies. She has worked in the field of global benefits for seven years, specializing in expatriate and local national concerns for not-for-profit organizations and US government contractors. Ms Trombley is a native speaker of Spanish and also speaks Portuguese and Arabic. She has a BSc in Foreign Service from Georgetown University, where she majored in Culture and Politics.

Just as you might feel nostalgic and surprised to see someone jogging down the street with a Walkman cassette player or would hesitate to update Facebook using a dial-up internet connection, so might employee benefits managers be frustrated by trying to make traditional cross-border insurance solutions fit the needs of today’s global organizations.

Make no mistake, the expatriate assignments of the 20th century (Globalization 1.0) are rapidly becoming a thing of the past, as global organizations deploy talent in new ways, from diverse locations, and for different purposes. While we do not expect insurance to evolve as quickly as technology, rapidly changing needs demand that coverage and benefits be upgraded for the 21st century (Globalization 2.0). Despite the constant murmurings about expatriates being replaced by local talent, globalization seems to be increasing the aggregate number of assignments and the number of assignments per company. The type of assignment and profiles of assignee are what is changing.

TRENDS SHAPING THE NEW ASSIGNMENT

Several key trends are changing the way expatriate assignments are structured, which will demand meaningful changes from expatriate health and welfare vendors and service providers. These trends have been driven by the shifting business and human resource paradigms of expatriate-sending countries (traditionally North America and Western Europe), in tandem with the effects of globalization within host countries.

The first of these trends is a shift in the incidence and purpose of expatriate assignments driven by the business needs and international strategy of the multinational headquarters. Traditional expatriate assignments’ were previously reserved for high-level managers whose involvement in a project or expansion was essential. However, in recent years, what are increasingly referred to as ‘international assignments’ are becoming a career rite of passage for younger professionals, either at the initiative of the multinational employer eager to develop the global savvy and sophistication of its future leadership or in response to the increasingly international aspirations of young professionals around the globe (Generation Y, also known as the ‘Global Generation’). Offering an international experience through a structured development program or a liberal assignment policy can represent a significant advantage for employers looking to attract high-potential talent in competitive labor markets. Today, we can expect 40-50% of our expatriate population to be under the age of 40, largely with no previous expatriate experience. This shift in the profile of expatriates is influencing the corporate and financial perspective on ROI and, in turn, how benefits for these assignments are structured. It comes as no surprise that companies are adopting an increasing number of mobility policies to introduce greater flexibility and reduce costs. A recent survey indicates that multinational companies with 100 or more assignees have, on average, four formal assignment policies, and some have as many as eight or more. Meanwhile, the cross-border insurance coverage available in the market remains largely unchanged and inflexible.

* return on investment
The second trend is that financial scrutiny of expatriate assignment costs has led to the sourcing of expatriate talent from outside the headquarters country. As companies continue to successfully expand in different corners of the globe, the perception that only senior executives from US or European home offices can successfully lead the charge seems antiquated. Third country nationals (TCNs) and intra-regional transferees are becoming more critical to global initiatives due to their unique combination of global experience and lower cost benefits demands. They often enter an assignment with knowledge of the host country culture, may speak the local language, and quite simply may already come equipped with the soft skills needed for success on an international assignment. These elements combine and allow such assignees to be more effective at a potentially lower cost than a headquarters executive would demand. Global organizations will increasingly draw from their global talent pool rather than their headquarters and other traditional expatriate-sending countries. 

The third key trend we see affecting expatriate assignments and the suitability of available cross-border coverage is the growing sophistication of many host countries whose governments have increased their scrutiny of expatriates. Host countries are placing new regulations and restrictions on foreign nationals as they have become more engaged in the global economy and more experienced in dealing with trading partners from around the globe. Enhanced social and regulatory infrastructure is part and parcel of economic development and the maturing of local labor markets. China has recently required foreign nationals to participate in its social insurance scheme; Brazil now requires outbound assignees to retain their Brazilian labor rights while abroad; and the list of countries requiring locally admitted and compliant insurance for foreign nationals will only continue to grow. Doing business in emerging and developing markets will require constant vigilance and responsiveness on the part of multinationals.

**THE NEW EXPATRIATE ASSIGNEE**

As multinationals seek new growth and sales opportunities, they are moving into an increasingly diverse number of countries. While the USA, China, and Singapore remain top destinations, the spread of countries is widening. A recent global survey found that companies identified 41 different countries in their top three destination countries and 74 countries when asked about new destinations. This is a dramatically different state of affairs compared with 10 or 15 years ago. The same survey indicates that, in order to control costs while sending talent to an increasing number of countries, multinationals are reducing benefits and turning to localization as part of an underlying philosophical shift towards a “wholly global workforce” that is available to “go where the job is.” In order to promote the movement of talent into a growing number of emerging markets, while also avoiding the cost of a traditional expatriate assignment, these cost-containment strategies are being complemented by a preference for younger, single assignees or intra-regional transfers in emerging market areas.

**Generations X and Y Go Global**

In 2003, a survey of expatriate trends reported that the majority (63%) of expatriates were age 40 and older and the remaining 37% were under the age of 40. Fast forward to 2012 and a similar survey shows that younger generations are closing the gap, with 44% under age 40 and only 56% age 40 or older. A noteworthy 13% of assignees are now between the ages of 20 and 29.

Concurrent with this shift, candidate experience and purpose of assignment have also changed. The same 2003 survey shows evidence of a lingering career expatriate dynamic, with 47% of expatriates reportedly having had previous international experience; in 2012, only 21% had previous international assignment experience. In terms of assignment objectives, the 2003 and 2012 surveys share the same list, which includes the following:

- filling a skills or managerial gap;
- building international management expertise;
- launching new endeavors; and
- facilitating technology transfer.

Where they differ, however, is in the 2012 addition of “career development,” coupled with building international management expertise. We may be witnessing the end of the “career expatriate”, as international professional development assignments and transfers on local terms gain prevalence. From an insurance perspective, the plans designed and priced to cover these high-level career expatriates are often too benefit rich and too costly for the profile of the employees that increasingly fill international assignee ranks.

Expatriate assignments have become more diversified in their intent and, today, are focused as much on providing career advancement for promising young employees as on corporate and strategic growth. Expatriate insurers have so far shown little interest in catering to the specific health and informational needs of the under-40 set, notably contraception and family planning, sexually transmitted diseases, and safety concerns associated with high risk sports or activities.

**GREATER ASSIGNEE AND DESTINATION DIVERSITY**

The appetite for geographic expansion into new markets is shifting the traditional headquarters–subsidiary workforce dynamic. The home office is no longer the sun around which all the subsidiaries revolve. Globally, the subsidiaries of multinationals now account for over 69 million jobs, growing in 2011 at a rate of 8%, compared with 2% for local employment growth. In addition, foreign affiliates in emerging and developing markets – as opposed to developed markets – are beginning to account for the majority of the global workforce outside of the headquarters country. In a recent survey of 366 senior multinational executives conducted by the Economist Intelligence Unit, 39% of respondents stated that they will expand into emerging economies in the next five years. Within the same timeframe, 18% of these business leaders anticipate that their companies will employ 85% of their workforce.
outside their headquarters country, and 40% of large multinationals (US$10 billion in annual revenues) expect to have 70% of their workforce in foreign subsidiaries. Meanwhile, most cross-border coverage is situated in the headquarters country and influenced by that country’s domestic benefits culture and local insurance market. The assignees of the future will increasingly originate in countries other than the home office, yet they are covered by plans primarily of US and European design. There is a growing disconnect that international insurers are only beginning to appreciate.

With a rise in the use of TCN assignees – a trend that will certainly grow stronger over time – new challenges are presented to employers and insurers alike. Third country nationals may not be used to paying for health insurance and may be unfamiliar with deductibles and coinsurance. They may be more likely to leave family behind, creating a potential coverage gap for their trailing dependents if they and their dependents are not placed on international plans. Assignees from predominantly Islamic countries may expect to be covered by mutual insurance (takaful) rather than commercial products.

At the same time, international plans offered by US and European carriers are still largely designed and priced for the traditional model of expatriation: developed country middle-aged senior executives or career expatriates. Requiring a TCN assignee or a young professional development assignee to pay for dependent coverage can be a tough sell at the premium rates we often see in the expatriate insurance market today.

SCALING BACK EXPATRIATE BENEFITS

The number of expatriate assignments has generally increased, despite the fact that costs have remained relatively static. Statistics show that, in the period from 1993 to 2003, 51% of corporations had, on average, fewer than 50 expatriate employees. In the period from 2003 to the present, the majority (52%) now have 100 expatriates or more and only 34% of corporations have fewer than 50 expatriates. How then can expatriate costs be contained and how can a return on investment be assured?

Among US-based multinationals, we see the effects of the shift in expatriate profile in the varying approaches employers take toward downsizing expatriate coverage. During Globalization 1.0, expatriate benefits tended to be extremely generous and were designed to offset the unforeseen hardships of being on assignment while providing a sense of security for the assignee to venture into foreign lands with his or her family in tow. These assignees tended to be executives or career expatriates who demanded access to the highest-quality care with the least administrative or out-of-pocket cost. Today, as the profile of new assignees has changed, we see US multinationals seeking to structure expatriate benefits that closely resemble their US benefits, presumably because they do not feel that expatriates should be treated any differently than their domestic counterparts. The assignment is no longer a marker of special status with increased privilege. If companies are truly no longer sending employees on assignments because of the irreplaceable value of their expertise, but often as a step in their development or even as a type of international professional exchange, then having assignees shoulder their share of the costs would seem to make sense.

Generally speaking, a cost-sharing approach is more common among companies where ‘international development’ assignments are widespread. These companies are often new to expatriate management, are younger companies, or are in sectors where flat and matrix corporate structures predominate. Companies that are veterans of expatriate management and were involved in this arena before the ‘boom years’ still tend to differentiate toward higher benefits for expatriates.

In the case of cross-border medical insurance, this US trend of offering domestic-style benefits abroad can often mean that expatriates are covered by plans with deductibles (excesses) ranging from US$100 to as much as US$750 and coinsurance of only 70% or 80%. These design elements are intended to promote better consumerism and reduce costs in the US domestic market, but they have little relevance outside the USA, where they only create unnecessary and unexpected inconveniences for the assignee. Most egregious of these are assignments to host countries where the annual cost of an employee’s healthcare might never exceed the premium cost-share and out-of-pocket deductible, dramatically eroding the value of the coverage and the employee’s perception of it as a benefit. In other cases, the presence of deductibles and coinsurance makes hospitals or doctors in the host country reluctant to accept an employee’s insurance card because of the administrative hassle and uncertainty of receiving payment in full from multiple parties (insurer and patient). While this type of benefit structure may be acceptable to young expatriates from the USA, great attention needs to be paid to the impact on TCN assignees, on the one hand, and senior executive expatriates, on the other.

Interestingly, expatriate medical carriers in the USA do not seem to be looking at ways to reduce costs for employers and assignees. Many insurers still have a strong inclination to offer exclusive concierge services and plan designs. Expatriate carriers continue to build out new programs and initiatives such as global wellness programs that track healthy lifestyle management, maternity management programs, and extensive online member tools through which it is possible to schedule appointments and find the equivalent name of prescribed medications in several different countries. Many expatriate carriers have sought to add or facilitate access to political and natural disaster evacuation services or offer information through their web tools on the security environment of a destination. Underwriters at many US expatriate insurers seem to evaluate the risk of this cross-border population as if it was still predominantly composed of the old guard of expatriates, with the utilization patterns typical of couples in their forties with children.

* US$1 = £0.62, US$1 = €0.78 as at 25 September 2012
The Pitfalls of Localization
The desire to reduce the costs of international assignments in the light of their changing objectives may result in companies’ trimming expatriate benefits or adopting policies—such as immediate localization for what will more than likely be a temporary assignment—that may not be prudent for the welfare of the employee and may even be creating additional risk that could ultimately be borne by the employer.

Immediate localization or transfers on local terms, even when it is understood that the transfer is not permanent, continues to increase as an alternative to traditional expatriation. This allows the organization to offer the transferee the same medical, life, disability, and pension benefits offered to local hires. Localization is by far the most cost-effective strategy, as the per-person cost of local benefits can be as low as 10-20% of what an expatriate insurance package would cost. The often overlooked downside is that, if candidates placed on a local benefits package are not carefully selected and the local insurance policies are not fully understood by the sending country, the restrictions of a local policy may result in unforeseen issues and inconveniences. Although the multinational may want to treat him/her as a local employee, the transferee usually retains strong ties to his/her home country, and local coverage may not be suitable for someone who is more “cross-border” than local. We have seen numerous cases where, for example, the employee returns to his/her home country on a regular basis and is surprised to discover that the host-country medical coverage is not valid or adequate abroad. The inability to receive care outside the host country may create significant difficulty for assignees with medical conditions requiring regular maintenance and may result in assignment attrition or, in the worst case, a catastrophic situation where the employer must bear the cost of treatment or evacuation. Employees localized in Asia, for example, may not realize or have been fully informed that their host-country medical policy does not cover maternity, pre-existing conditions, or a host of other things that would normally be covered by social or private insurance in many other parts of the world. Employees transferred to Brazil may not be aware that they will not be eligible for surgical coverage for up to 12 months from their date of employment. Each country has local norms that will not appear normal to non-normals.

From a life and disability perspective, it should be noted that local policies often contain restrictive, if idiosyncratic, exclusions that expatriate policies typically do not. The most notable of these are the definitions and exclusions for war risk. In many cases, war risk or security exclusions are based on the variable definition of travel or assignment to countries for which a security advisory has been given in the past six months by the relevant foreign ministry or similar authority. Depending on where employees are located, this exclusion can have profound ramifications for employees and their survivors. Many benefits managers fail to realize that such exclusions not only apply to recognizable war zones like Iraq and Afghanistan, but if a policy uses a ‘security advisory’ definition, may also extend to areas as seemingly mundane as Greece or the Philippines. Another challenge raised by the localization strategy in the area of life insurance is the potential need to provide evidence of insurability when the local group is small or in countries where such evidence is routinely required. As employees move from country to country, they are at greater risk of losing their insurability or of having to be medically underwritten multiple times.

What we see then is that employers and insurers are taking very different approaches to the expatriate population of today. Employers continue to push the envelope of cost savings in the new age of expatriate assignments by experimenting with two extreme approaches: offering home country-style benefits or host country localization, rather than a benefits package tailored to meet the unique challenges of an international assignment. Insurers seem to be focused primarily on adding superficial enhancements (like an internet portal) to jazz up the same old guard expatriate plans. Perhaps what should be discussed is a completely different design to meet the needs of the new expatriate population: regional plans with targeted care for each assignment, modules and classes of coverage to match the specific expatriate needs of a population, and access to care that matches the demographic needs of the population.

CONCLUSION
Recent changes in the expatriate insurance industry—the consolidation of several existing carriers and the emergence of new ones—provide further evidence of the growth of international assignments and the opportunity to develop innovative insurance solutions. It remains to be seen whether these providers will successfully craft products that will meet the needs of the new (predominantly non-US, non-European) expatriate workforce while offering value to companies seeking to provide more restrained packages. Some of the challenges that carriers face in the areas of expatriate health, life, and accident coverage include the following:

- adding services only where needed and trimming costs by eliminating unnecessary services;
- designing regional coverage options that narrow risk exposure and offer better pricing;
- ensuring that coverage is locally compliant in all markets where clients are doing business;
- developing culturally and religiously desirable products;
- improving direct settlement options in countries where payment in full is required at the time of service;
- offering mobile technology solutions in addition to desktop interfaces; and
- seeking greater integration with local social insurance and local health systems.

In addition, it is worth considering the rapidly improving quality of healthcare in developing countries. Most international medical coverage is priced to include medical evacuation for the expatriate who is mistrustful of care anywhere but home; meanwhile the number of countries offering world-class facilities and medical expertise continues to grow. Is there any need to repatriate a British expatriate working in Singapore, or even India?
Today, there are more than 20 noteworthy international carriers, and US healthcare giants United Healthcare and Blue Cross Blue Shield have just entered the fray, but few existing carriers offer solutions suitable for the multinational company desirous of having a single international carrier. Due to the increasing number of local regulations and requirements, carrier options are limited when assignees are being sent to or from countries like the USA, United Arab Emirates, China, Australia, and Switzerland, each of which presents its own unique compliance hurdles.

Advisors and carriers need to take stock of the significant cultural and demographic shift developing in the new expatriate workforce. These are not the expatriates of Globalization 1.0. In the new age of expatriate assignments, we will see assignees from virtually every nation in the world, whether developed, transitional, or emerging. Their ranks will be composed predominantly of “millennials” and Generation Z employees, who grew up in a world of instant results, rampant technology, and pre-packaged facilitation for nearly every aspect of their lives. From a benefits perspective, these employees will have high expectations with regard to service and efficiency. Paper claims forms, faxing, and slow reimbursement periods will not pass muster; they will expect prompt settlement by handheld device. With that in mind, we can anticipate that these new expatriates will be every bit as demanding as their older counterparts, if not more so.

References