Group protection – lessons from Scandinavia

Chris Samuel

When I was asked to speak at this year's conference on group protection insurance, I was reminded of the surprise expressed by a guest of ours from an industry consultancy in Denmark who attended this event in 2013, when listening to our perennial discussion about the UK's 'Protection Gap'. Keen to understand this surprise I probed a little further, his response was startling:

> *"I can't believe how different the UK protection market is compared with Scandinavia. We have the exact opposite problem - most of our consumers are actually over insured!"*

So what is so different about Scandinavia, and in particular Denmark?

Well it's common knowledge that in Denmark the state plays a much larger role in welfare provision and in making social interventions, but this isn't the whole reason why. More it is the catalyst that this approach provides that has driven innovation among providers in the group protection market and wholesale adoption by employers and employees.

The Danish model is more innovative, centred on the individual and their needs, with protection cover a mandatory part of all workplace employee benefits packages. However, as you would expect with Denmark, there is also a close alignment between these benefits, which operate as a buffer, and the current state provision.

In Denmark at least 12-15% (20% is more common) of gross salary is allocated to protection based products. A minimum of 10% is provided by the employer and the employee must provide the balance - this is deducted pre-tax (another interesting topic of conversation…).

Contrast this to the UK where, although pensions are now compulsory (or more realistically compulsory *to offer),* life cover, in the form of death in service, income protection and private healthcare should all form part of the stable of 'group protection products' which are offered on an employer by employer basis to varying degrees, or in some cases not at all. To be blunt, in the UK there is a somewhat tokenistic approach to group protection provision. Even basic death in service life cover, if offered, (and it's shocking that it isn't universal, but that's a different topic of conversation) varies enormously from 2 times to 6, 7, 8+ times annual salary.

In addition, other than pensions, the other protection products when part of a workplace package are often - and here I am speaking from a personal viewpoint with past employers - provided without any fanfare, explanation or engagement. Indeed, these important benefits are often given the same degree of importance as free eye tests, a corporate gym or golf club membership discount or even discounted Costa Coffee.

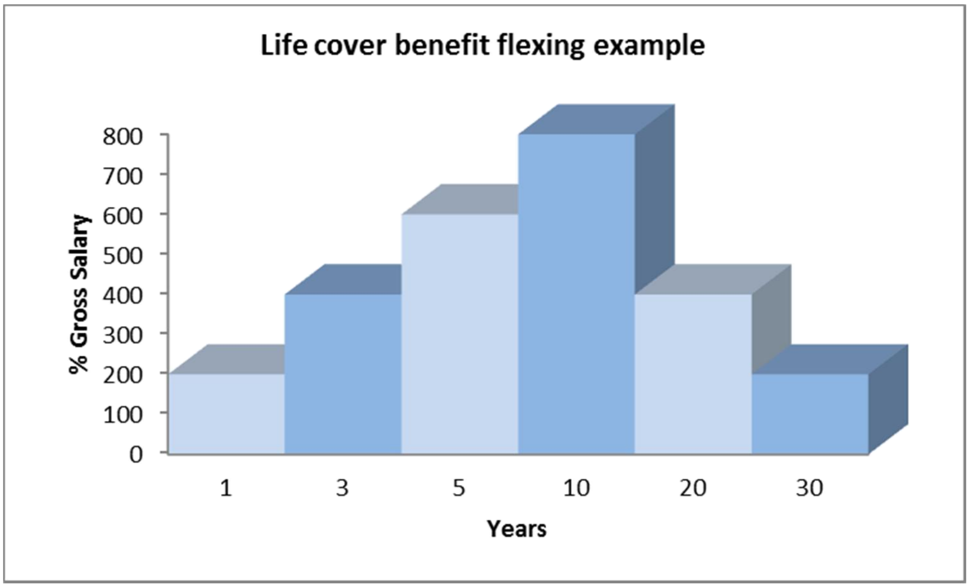
So pensions, tick, death in service life cover, tick, income protection cover, tick, private healthcare cover tick. Job 'ticked', but not really job done. With the exception of pensions and private healthcare they are also often, if not always, fixed benefit value and individual (employee) centric.

Only pensions provision is usually transferable when you leave a job, although as I can attest from personal experience, that is often far from straightforward.

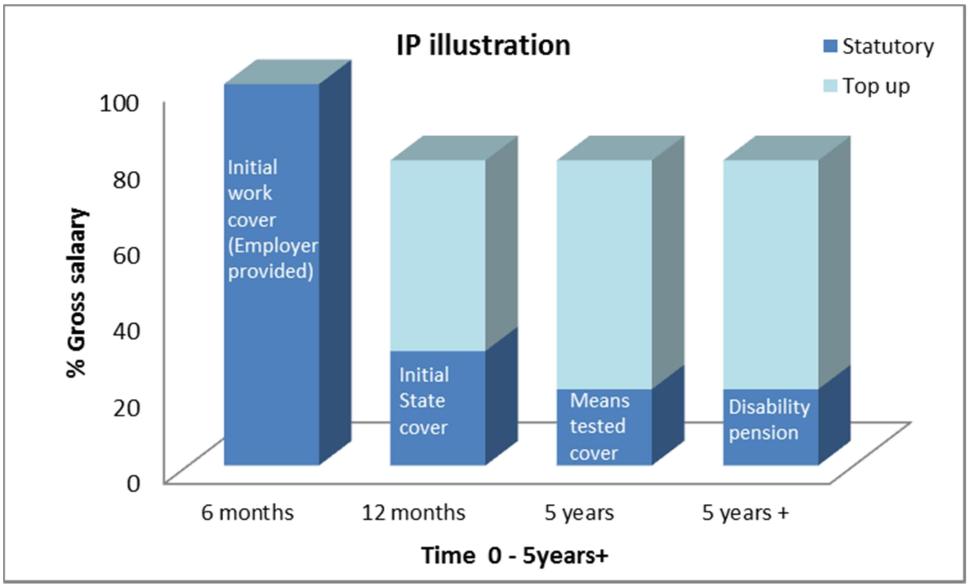
With the Danish model, the employee decides how they wish to allocate their protection funds across life cover, income protection/critical illness cover and pension savings. The fund belongs to the individual and is fully transferable. The cover it buys is valid up to retirement, assuming continued payment, not just for the duration of the current employment, and is taxed when paid. The net result is less drain on the state as people are so well personally protected.

Illustrations

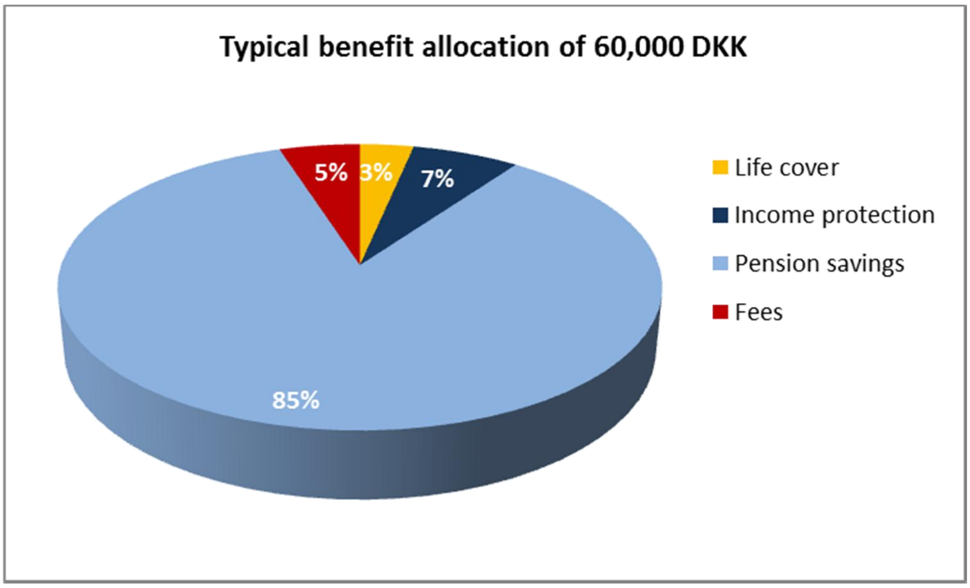
The life or death in service cover element starts at a standard 200% of annual salary with guaranteed acceptance. Further increments of 25% are available, with some light touch underwriting, up to a ceiling of 800% annual salary. The cover amount is reviewable annually, creating a living fund which can then be flexed depending on an individual's protection exposure as they go through the usual changing life stages of marriage, mortgage, children, bigger mortgage, downsizing etc.



Critical illness or income protection is set at 40-80% of salary and is there primarily as a top up to the basic state provision. At lower salary levels, the annual state benefit of 87,000 DKK combined with the state pension is equivalent to c.80% of salary.



Based on an average salary of 400,000 DKK and a benefit pot of 15%, 60,000 DKK, a typical allocation would be as illustrated below



The key point here is the flexibility and transferability of the protection package. There is some state legislation to ensure a basic provision, then the usual employer discretion around corporate benefit packages. Admittedly this is something that in fairness is starting to appear in the UK for large blue chip multinationals, where flexible benefit options package are part of the total remuneration package, but crucially the big difference is in the UK it is still largely non-transferable.

What can the UK learn?

It is overly simplistic to suggest that a like-for-like adoption of the Danish model would somehow be the silver bullet for the 'Protection Gap', not least a proposal for changes to state benefit structure would see a swift journey to even longer legislative grass than other benefit changes mooted. Neither is it likely that in the current economic environment there would be appetite for legislation to foist compulsory protection cover provision on employers (irrespective of the inherent sense that may make).

What as an industry we need to do is look at how we can be more innovative and possibly radically so within the current group protection propositions space. By providing choice and options we can at least start a conversation with customers.

The cost of cover is already a monetized per employee amount, so is making it a portable benefit such a step change? Granted the premium is based on employee profile, but adding a health and fit to work declaration would go some ways to address this. In addition what is there stopping the initial group death in service salary benefit being the base offer rather than a fixed amount and much like pension contributions allow the employee to take out more cover, reviewable on an annual basis with payment via payroll deduction? I for one would take advantage of this.

But why should we stop there? Private healthcare benefit packages invariably give options for adding spouse and/or family cover, so why not add elements of additional spousal life cover or children's critical illness cover?

It is this type of thinking, more refined than some off-the-cuff suggestions in this article, that is needed to help re-engage the disinterested, uninformed customer we as an industry are responsible for creating. Whether they are then inclined to flex a corporate benefit policy, minded to seek an alternative direct-to-consumer offering or opt for professional advice as a result of improved engagement doesn't actually matter. What does matter is they are minded to engage and empowered to do something to better protect themselves and their dependants.

This is not to suggest any of this is easy; if it were I would like to think as an industry we'd already have done it by now. Of course it will need proper actuarial investigation, analysis and assessment as well as employer and other stakeholder engagement. The increasing flexibility of underwriting platforms means that the capability inherently exists today. Now we just need the appetite to affect change. The virtue of presenting options to a new employee at least gets the conversation started. Combining it with initial pensions meetings and an annual or periodic pensions review with a qualified advisor as part of a workplace scheme can only help.

As employers seek to compete in the market place beyond just salary and as work place benefits and employee wellbeing becomes more commonplace and actively promoted, isn't now the right time to start the conversations to make this a reality?

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