Analysis: International life and disability cover for businesses – the next big thing?

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We ask leading EBCs for their views

As a heavyweight insurer launches into the global life and disability market, Sam Barrett asks senior employee benefit consultants if they believe it is an area set for exponential growth

While complexities around international medical insurance requirements have turned it into a key area for benefits consultants, international group risk benefits have often been left in the shadows. But, with Allianz Worldwide Care's (AWC) recent announcement that it is launching international group life and disability cover, it's an area that is likely to get a lot more attention.

The products, which are available for small, medium and large groups, will be offered alongside its international medical insurance on renewals from 1st January 2015. Ron Buchan, chief executive of AWC, says that as well as ensuring employees have the right benefits while overseas, there are economic and administrative advantages for clients who take multiple products.

"We can offer a premium discount but they'll also have the benefit of having just one insurer to deal with on the administration front," he explains.

Buchan believes there is huge potential in this space. In addition to clients who already have life and disability with another insurer he says that there will be plenty that only have medical insurance who would benefit from extending their benefits. "We expect to see a lot of interest," he says. "It's the norm in countries such as France, Belgium and Holland to take out a full range of international benefits for expatriate employees but much less common in the UK."

Home comforts?

Understanding the options available when providing benefits to expatriate employees demonstrates the role and importance of international plans. There are a number of ways employers can do this, with the choice often dependent on regulations, tax implications and benefit terms and conditions as well as the nature of the employee's assignment.

First up is to keep them on the domestic plan. This is the simplest approach but also the one most likely to cause problems.

Linda Torr, principal, global benefits at Aon Hewitt, explains: "UK employers do tend to keep their expatriate employees on the domestic plan but if their contract changes and they're localised they wouldn't be able to stay on it."

Not every employer will look to change its expat contracts but in some professions it would be required. For example, Torr says that partners in a legal firm would often need a local contract to be able to practise.

Even if steps are not taken to change employment contracts, employers can also run into problems with the terms and conditions on a domestic plan. Some insurers will only provide cover in the UK, or will limit it for a set period. In the worst case scenario this could mean a claim being declined with the employer forced to settle it themselves.

There can also be issues with local tax and regulation as well as currency and exchange rates.

"One of the biggest risks for organisation operating internationally is ensuring the right level of compliance," says Mike Lewars, commercial lead and head of international at Buck Consultants. "You need to navigate through an increasingly challenging compliance landscape."

Going local

Moving an employee onto a local scheme can solve many of these problems. This can be achieved either by arranging cover locally or through a multinational pooling arrangement

Which is most suitable will often come down to the size of the organisation. While it is possible for smaller companies to access multinational pooling through one of the multi-employer pools, the administration required to set up a pool means it is more suited to large corporates with operations around the world.

But, whether bought directly or through a pooling arrangement, there can still be complications with a local scheme. Torr says that benefit levels can vary around the world and this might be reflected in a local scheme. As an example she says that in the UK it might be the norm to have life assurance cover equivalent to four times salary but this drops down to three times in Nigeria and two times in Asia.

While this can make for difficult conversations with employees, convenience can also make the local route less attractive. Richard Colver, head of healthcare and wellbeing at JLT Employee Benefits, says that, wherever possible, he would look to put an employee on a local contract as this is usually the best option from a tax perspective.

"This isn't always possible," he adds. "If you have small groups of expatriate employees spread all around the world, they cannot be retained in the UK plan and the client doesn't have a multinational pooling arrangement, they'll struggle to get local cover. In these cases an international policy is the best, if not only, option."

International jet set

There are a number of advantages to providing an international plan. Importantly, they remain in place wherever an employee is based.

"International benefits are global policies so they offer a simple solution where an employee may be moving from country to country," says Buchan "Rather than move them from local scheme to local scheme, having an international policy cuts down on the administration and ensures their benefits are compliant."

It is also perfect where there are only a small number of expats or they're spread thinly around the globe. Rather than attempt to arrange a series of local policies, all expats can be catered for through one scheme.

But while international benefits give this reassurance and convenience, there is a downside – cost. With an employee potentially based anywhere in the world, there is a higher risk of a claim. On top of this, as there are not many players in the market, competition is relatively muted. Torr says that, because of this, she would look to move employees back on to a domestic plan when they returned to the UK.

Market overview

But the number of players in the market may grow over the next few years. With companies increasingly looking overseas for opportunities, there are plenty of opportunities for international benefits. James Spencer, international development manager at Jelf International, says he has seen increased interest from employers looking to do the right thing for their expatriate employees.

"They're not saying 'what's the minimum we can do?' Packages include health and risk benefits but also health checks and other ways to ensure they stay fit for their assignment. There are plenty of opportunities."

In addition, while the large multinationals are wise to the benefit requirements of their expatriate employees, Ludovic Bayard, chief commercial officer at Generali Employee Benefits, says that the medium sized companies are less likely to be aware of the need for different cover.

"These firms may only be sending a handful of employees overseas but different rules and customs around the world can create problems if they don't have the right benefits in place," he explains.

There is also a need for education among advisers. Buchan says that while the large consultants are already up to speed with international benefits, it will be a new market for many of the specialist medical insurance brokers.

"Moving into this market offers them the chance to displace another broker and develop a deeper relationship with a client," he adds.

The need for cover coupled with the lack of awareness means that brokers have welcomed AWC's entry into the market. Chris Beardshall, senior consultant at PMI Health Group, the consultancy, describes it as an interesting move from a firm with good experience in the international market.

Colver also applauds AWC's move.

"Premiums are higher on international risk benefits than the UK domestic plans and this will help to drive healthy competition," he explains. "The more insurers in the market the better."

Competitor interest?

Competitor interest?

Given these opportunities – and the risk that greater awareness of the need for life and disability benefits will drive customers into the arms of the insurers offering a full range of products – it is widely anticipated that other insurers will follow AWC into this space. "Other medical insurers will be watching closely to see how AWC does," says Lewars. "There are challenges to entering the market but it's the next logical step in the international market."

But, while it may be important from a business perspective, Buchan believes there is a significant barrier to entry in the way of competitors.

"We've been able to do this by merging AWC with the international divisions of Allianz France to create AWC SA, which is regulated in France and has a single licence to underwrite both health and life insurance," he says. "This isn't a simple undertaking but by doing this we have a competitive advantage as, rather than having to support two licences with capital, we only have one. This means it should be cheaper.'

One option for those without the opportunity of an internal merger to simplify licensing arrangements is to set up a strategic partnership. Spencer explains: "Zurich's not in the international medical insurance space but it works with other insurers to ensure customers have access to the full range of employee benefits. Other insurers might follow this model or we could also see a medical insurer buy a risk player to give them the range of products and the necessary licence."

And, with the international benefit market set to grow over the next few years, it is certainly one to watch.