



# GLOBAL BENEFITS VISION

Knowledge & Wisdom for Global Employee Benefits Professionals

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COVER : AGNÈS M.

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Stephan Hillert is the European Head of Distribution and Customer Relationship Management for Zurich International Corporate Solutions, with responsibilities across 14 European countries.

Stephan began his career in financial services by running his own brokerage for five years, serving individual and business clients. He joined the Zurich Group in 2010, moving into the corporate market and working in both the U.S. and Europe, initially as a Global Associate taking part in an intensive program of mentoring and training from top Zurich leaders. In 2012, Stephan took on the role of Head of Customer Relationship Management in Germany, working in the Corporate Life and Pensions team and managing the local implementation of Zurich's global customer management strategy. Additional assignments included Global Project Manager and Global Distribution Manager, where he facilitated the global distribution strategy.

As a graduate of Business Administration and Financial Management at the European University of Applied Sciences, Stephan is a member of IEBA, bdvb (German association of economists and MBAs) and EUFH Alumni network.

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Stephan Hillert

**S**tephan Hillert, Head of Distribution and Customer Relationship Management Europe for Zurich International Corporate Solutions, looks at the income protection gap in the German market and how a new approach to group life and disability cover could help to close it – with benefits all round.

As Europe's largest economy, Germany is an important location for many multinational businesses. One would think it would be easy to find well educated and trained staff, but these businesses are finding it increasingly difficult to recruit managers and other highly skilled employees due to the highly competitive labor market and record low unemployment.

Attracting talents is obviously a key element of the success of any business. Therefore, standing out from competitors and positioning their organization as an employer of choice is a key priority for HR managers globally as well as in Germany.

In any competitive labor market, employee benefits can act as a key differentiator. Employees with the opportunity to consider a number of employers will understandably compare the financial packages on offer – and weigh up the benefits of each according to their individual situation. In this article we will look at one component of the employee benefits package that research has shown is attractive

to workers and consider the advantages a new approach to providing it could have in Germany for employers and employees alike.

#### **MIND THE GAP – RESEARCH SHOWS THAT EMPLOYEES NEED AND WANT SUPPORT**

Zurich Insurance Group has collaborated with the Smith School of Enterprise and the Environment, University of Oxford to produce a thought-provoking report looking at income protection gaps around the world. The report, entitled 'Understanding income protection gaps: awareness, behavior, choices', includes insights into people's attitudes to income protection in the German market and so I will begin by summarising some of the findings.<sup>1</sup>

Of the 11 countries surveyed, respondents in Germany were the least likely to have insurance, which could well be correlated with the fact that they perceive the public safety net in case of disability will be available for them should they need it (SEE TABLE 1).

<sup>1</sup>  
The full report is available at <https://www.zurich.com/en/knowledge/articles/2016/10/understanding-ipgaps-report>

TABLE 1: COUNTRY RANKINGS BASED ON SURVEY OF 11 COUNTRIES

HAVE INSURANCE (descending)			SOCIAL PROTECTION INDEX (perceived strength of public safety net) (ascending)*	
1		Hong Kong		Mexico
2		Malaysia		Italy
3		U.S.		Brazil
4		Mexico		U.S.
5		Switzerland		Spain
6		Australia		U.K.
7		Spain		Malaysia
8		Brazil		Australia
9		Italy		Germany
10		U.K.		Switzerland
11		Germany		-

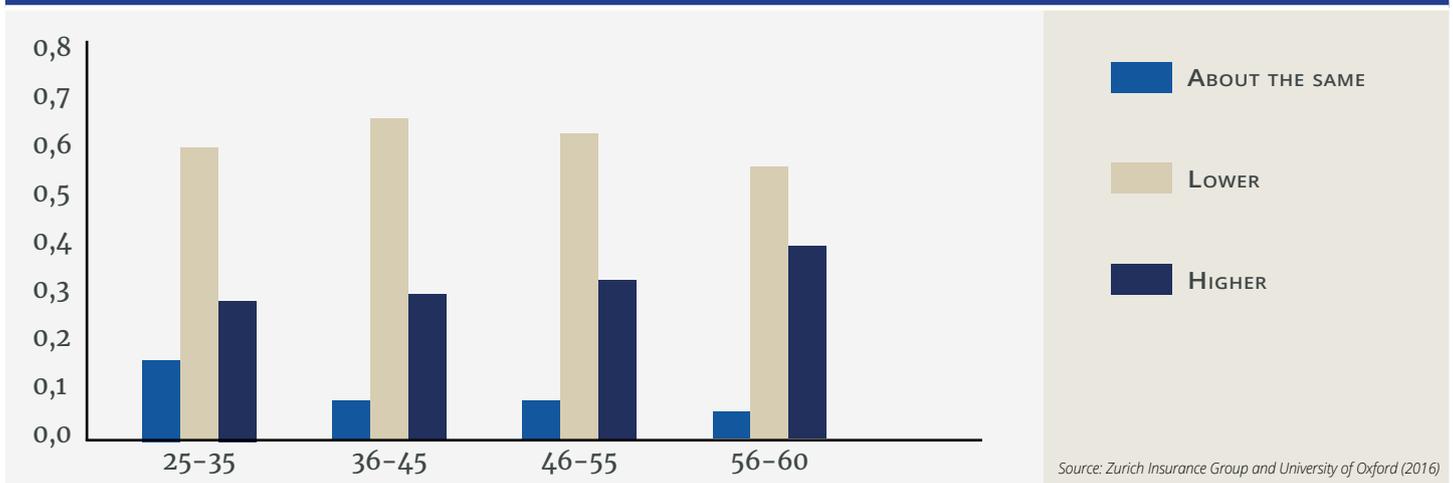
\* Data was not available for Hong Kong.  
Source: Source: Understanding income protection gaps: awareness, behavior, choices

This perception is interesting considering the reduction in government-provided disability benefits to 788 euros a month. Also, Germans are sceptical in regards to the future of social welfare payments. When asked ‘Looking ahead five years from now, and adjusting for inflation, what amount of money do you think the government would pay you if you were unable to work due to serious illness or disability?’ the majority of people in all age categories thought benefits will be lower (SEE FIGURE 1).

The need for income protection is well established and its benefits are clear, when recognised, in terms of the financial hardship

it can help to prevent for individuals and their families. However, the ability for governments to supply the safety net required is falling while demand for it is increasing. People know there is a gap but are somehow reluctant to act. The report tells us that “disability levels are rising due to an aging population, tighter labor markets and improved medical diagnosis, which can confirm illnesses and disabilities such as mental health problems that were not recognized, let alone treatable, in the past.” In fact around 25% of people – that is, one in four of us – can expect to experience an interruption to income that could be covered by an income protection policy during their working lives.

**FIGURE 1: LOOKING AHEAD FIVE YEARS FROM NOW, AND ADJUSTING FOR INFLATION, WHAT AMOUNT OF MONEY DO YOU THINK THE GOVERNMENT WOULD PAY YOU IF YOU WERE UNABLE TO WORK DUE TO SERIOUS ILLNESS OR DISABILITY?<sup>2</sup>**

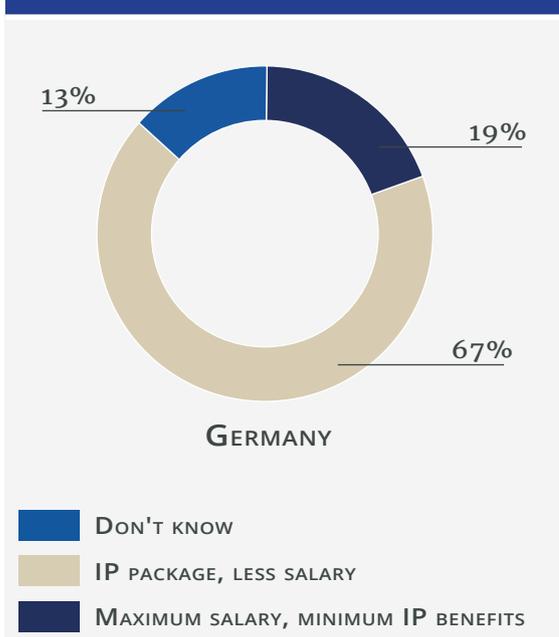


While we've already seen that employees in Germany are the least likely to have income protection insurance in place, there is considerable interest in income protection as part of an employee's benefits package. The survey revealed that a significant majority of employees would choose to include income protection cover in their benefits package even if it meant a lower salary (SEE FIGURE 2).

This suggests that employees would not mind spending money to buy protection for themselves and their families, but it also implies that they do not feel comfortable enough to do so. Assistance from their employers would be welcome and a real differentiator. Consequently, an organization that shows social responsibility by offering an income protection package can increase employee loyalty and its appeal during the recruitment process. With this in mind, how could an organization go about achieving this for its employees in Germany?

<sup>2</sup> German Federal Pension Insurance report, 2017

**FIGURE 2: INCOME PROTECTION PACKAGE PREFERENCE, SALARY VS BENEFIT PACKAGE**



### GROUP LIFE AND DISABILITY INSURANCE - A NEW APPROACH TO PROTECTING EMPLOYEES

While much of the focus recently has been on the pension's reform – moving from defined benefit to defined contribution schemes, removing the need to offer minimum guaranteed payments, and incentivizing employers to invest in retirement savings for their employees – the German government is also placing increasing emphasis on the need for organizations to provide income protection benefits. As mentioned earlier, social welfare disability payments have fallen to around 788 euros a month, creating a need for individuals to close this new income protection gap through insurance.

Traditionally, the employee benefits packages offered by German businesses have been dominated by pensions and were perceived very complex due to five different financing options in the German occupational pension system. In most cases, where they have provided life and disability benefits to employees, this has been done individually, either through the policy being written on an individual basis for each employee, by paying claims themselves, or through collective schemes. But, and this can be the major issue with this kind of protection, in a lot of cases they tend to require individual medical assessments in the form of questionnaires. For a business with 500 employees this could mean 500 underwriting decisions and the need to administer varying costs and benefits across their workforce – potentially resulting in a lot of paperwork for both the HR department and the individual employees. This approach often resulted in higher premium costs and individuals being denied cover.

In addition, and even more importantly, this individual approach also means that some employees have been unable to secure needed cover due to pre-existing conditions, such as back problems or the fact they partake in riskier pastimes, such as extreme sports, being identified by the initial medical questionnaire.

For HR managers with international experience, the traditional individual approach to providing cover probably appears unnecessarily cumbersome as this is not the way it is handled elsewhere. Many are familiar with true group solutions offered in other countries, which offer a number of advantages to both employers and employees. And the good news is that these have now started to appear in the German market, offering a simpler and more efficient way to protect employees.

As their name suggests, the new group life and disability insurance solutions take a collective approach to providing cover. An organization can protect all of its employees under one policy and the whole employee population is looked at as a group for the purposes of underwriting, with little or no need for health examinations and without considering individuals' medical histories.

These solutions have clear advantages over the traditional approach:

- *Policies are simple to set up and administer, reducing the workload for HR teams and employees.*
- *With very little or no medical underwriting, all employees have access to this valuable cover and none will be excluded. This contrasts with the current situation in the disability insurance market where many people find it difficult to get the cover they need.*
- *Premium levels can be significantly lower compared to buying individual policies.*

### CONSIDERING THE OPTIONS

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The first group solutions became available a few years ago and the market has continued to develop since then, with new providers entering each year.

At Zurich, we have seen extensive interest in our group life and disability solution, and not only from multinational corporations looking to harmonize at least a minimum level of employee benefits across their global workforce. The move to this new approach is also being driven by German subsidiaries looking to take advantage of the local recruitment advantages

and simpler administration. Moreover, the German “Mittelstand” is also searching for attractive benefits and solutions for their employees.

Group solutions for life and disability offer benefits for employers and employees, and can increase company attractiveness and loyalty of

staff. Even though they are new to the German market, other markets, e.g. the U.K. or U.S. market have shown that this approach is cost effective and sustainable. Do not miss out on this great opportunity to increase your odds in the war for talents and to establish your organization as a socially responsible employer.



# ZURICH'S TEAM PRODUCT

*TEAM® is Zurich's entry into the German group life and disability market. It offers:*



A single group policy to cover life and disability including all employees with simple and fast administration



Many years of experience in provision of group life and disability insurance in several markets with market leading positions in some of the most competitive and sophisticated markets, such as, the U.K.



The ability to set up different groups with different coverage levels



High flexibility to tailor disability insurance with three different cover options: any, own or similar and own occupation to the unique needs of the company.



No health examination, high Automatic Acceptance Limits (AAL), new-joiners automatically insured, with no consideration of pre-existing conditions



The ability to pool or to cede to a captive makes the TEAM solution additionally attractive for multi-national corporates

# GBV

## GLOBAL BENEFITS VISION

### THE GLOBAL BENEFITS VISION

#### GLOBAL EMPLOYEE BENEFITS & GLOBAL MOBILITY

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