PROTECTION INSURANCE: THE END OF ACTUARIAL RESERVES FREES UP THE MARKET

The protection insurance market continues to gain in flexibility. Ever since a decision by the Constitutional Council in June 2013, companies are now free to take out a policy with the insurer of their choice when providing the protection benefits for their staff dictated by the company's sector-specific agreement (see article last May). The pensions reform of 2010 did however leave a stumbling block: on cancelling a policy, termination penalties have been charged as compensation to the insurer, based on the actuarial reserves calculated on all outstanding benefit claims. This situation will disappear as from 1 January 2016. Here is why:

The 2010 pensions reform: collateral effects on protection insurance

In 2010, the retirement age was increased by two years for the majority of working people. Since that reform, an employee who can prove having paid the full number of quarterly contributions can retire with a full pension at 62, whereas it was 60 before. This decision has proven to be a complicated issue for protection insurers. This is because two more years in employment means two more years of disability payments for claimants entitled to benefits up to retirement age. The amounts to be posted to reserves to cover benefit payments over the coming years suddenly increased because of the pension reform.

Actuarial reserves to spread the cost

Protection insurers had the possibility to spread the reserving of this future expense over five years, i.e. up to 2015. As a result, those liabilities that were apparent as from 2010 relating to current disability and sick leave claims, have only progressively been posted to insurers' accounts.

A termination penalty on changing insurers

These actuarial reserves are generally invisible to the employer but have now come out into the open, causing issues for companies looking to cancel their policy. This is because the protection insurers who are liable to continue benefit payments to claimants, have now been charging a termination penalty that corresponds to their only partially-reserved increased policy liability. Some SMEs wishing to change insurer have had a rude awakening when their feasibility study reveals that they would have to pay out several thousand and even tens of thousands of Euros. This has been enough to stem the enthusiasm of even the most motivated of employers and block the protection insurance market for a long time. Just a few months more and the actuarial reserves stemming from the pension reform will then be just a memory of the past. Now that the so-called designation clauses are disappearing from sector-specific agreements one after the other, the protection insurance market will soon be totally unlocked.