

Pan-European Cross-Border Life Assurance: Myth or Reality

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This was the lively debate at a recent Milliman Global insurance partners' meeting.

Whilst agreeing with the inevitability of a positive answer in the longer term, an external speaker held the view that at present the pan-European market was a myth. After all, he said, if the opportunity is large and is here, why are American institutions not rushing in to exploit it?

Some of his scepticism is understandable. Certainly, much EU cross-border business in the past has been "round-tripping" back to the home country. Classic examples of the genre are:

Belgium --> Luxembourg --> Belgium and Italy --> Ireland --> Italy
(parent) (insurer) (customer) (parent) (insurer) (customer)

Substitute "Belgium" with Germany or France, and Ireland with UK, and various observations emerge:

1. Historically, the bulk of the business has been narrowly sourced, often 100% from the home country. For such business, "offshore" would therefore be a more appropriate description than pan-European.
2. Much EU cross-border life business in the past has been constructed more to exploit the obvious regulatory arbitrage opportunities than on account of genuine pan-European ambitions; vestiges of "a priori" product control do, after all, linger in certain countries, and the power of the single passport has been successfully used to trump them.
3. Confidentiality laws and secrecy have, in certain cases, driven the business offshore and created the need for it.

However, with today's more transparent joined-up world, things have changed significantly. In the last nine months alone, major financial groups such as UBS, Generali and Skandia have all launched multi-market European life businesses, with genuine pan-European credentials and business models. (Notably, for reasons too numerous to list here, all these entities have located in Ireland.) Some very significant new business premiums are being written into markets including Germany, Italy, Spain, France, Netherlands and Belgium (yet the parents are based in Switzerland, Italy and Sweden). As these operations grow, others will join them.

The fact that pan-European business is now a reality shows the extent to which the single European market can work in financial services. The single currency has helped here of course. In many cases insurers are now able to offer the same, or virtually the same, life assurance contract into many countries. (Naturally, language hurdles remain, but these should form barriers to no international business.)

Tax issues too are becoming less and less important when selling product across borders. In this respect, the landmark European Court of Justice rulings in the cases of Danner (individual pensions) and Ramstedt/Skandia (corporate pensions), which drive coach and horses through the current tax barriers, should now inevitably open up domestic European pensions markets to pan-European insurers. Enlargement of the EU in 2004 will provide a further boost.

In short, genuine pan-European life business *is* now a reality, and one which is poised to grow apace in 2004. The pace of change will not slow. And as for the Americans, well, let's just see