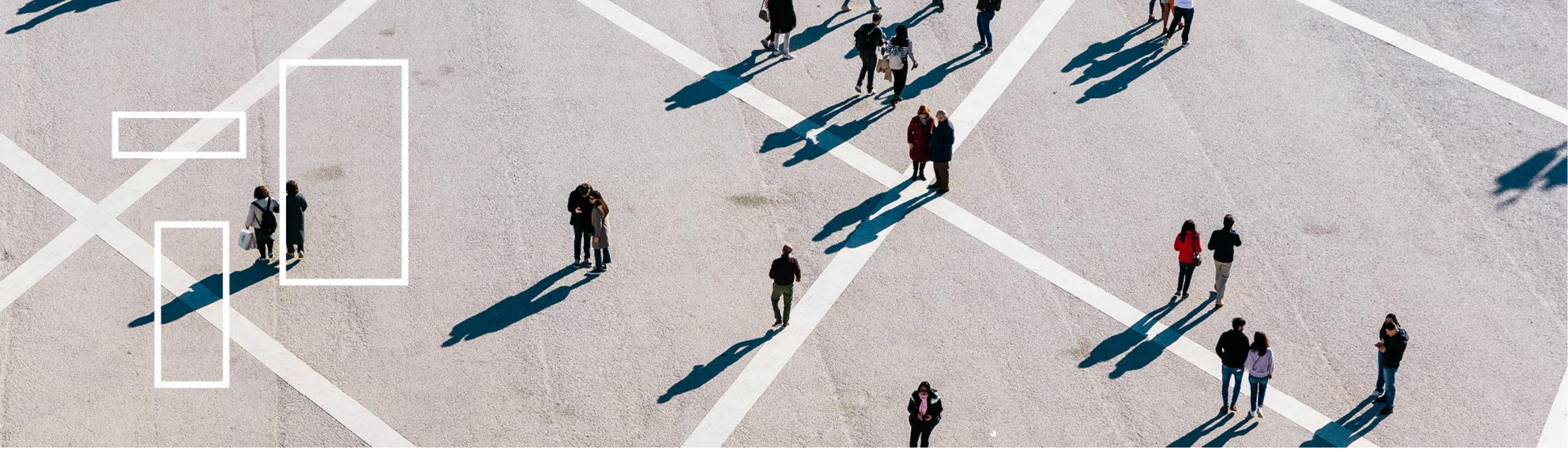

# The pension market is in turmoil

**The Danish Financial Supervisory Authority has issued a new regulation that could bring about significant changes to the Danish pension market.**

*By Martin Wex*

A sustainable business model. That is the requirement of the Danish Financial Supervisory Authority, which has issued a new regulation aimed at pension companies' pricing of health and accident insurance. So far, four of the commercial pension companies – AP Pension, Danica Pension, PFA and Velliv – have run up huge deficits on their health and accident insurance accounts – deficits that have been covered by income from other business areas.

But that is about to come to an end, if the Danish Financial Supervisory Authority has its way, requiring separate statements of income and costs for the insurance package and pension savings respectively.

»In future, companies must have sustainable business models in both business areas, so that each business area rests on its own,« says Deputy Director Carsten Brogaard of the Danish Financial Supervisory Authority.

## Surprise and scepticism

WTW views the announcement with wonder and a certain amount of scepticism, as it is difficult to see how the new rules will benefit companies and their employees.

»We are surprised that a public authority chooses to intervene and regulate pricing in a competitive market, and we are surprised that it – now that it has chosen to intervene – does not require greater openness and transparency about investment and administrative costs on the savings side, where there are currently a large number of hidden costs that contribute very significantly to the pension companies' profits,« says Chief Placement Officer Erik Kongsted of WTW.

» It will probably be the pension companies that will be the winners, while the employees will be the losers

**Erik Kongsted**
Chief Placement Officer

The new regulation does not, however, change the requirements for pension companies' business models on the pension side, although better insight into the real costs could help create more competition and thus provide lower prices for companies and their employees.

»Pension companies have been happy to show their large insurance operating deficits, but they have been very reluctant to open the books that show how much they earn from asset management. We therefore also fear that the new regulation will lead to significantly higher insurance prices, but largely unchanged prices for investment and administration of the employees' savings – and thus it will probably be the pension companies that will be the winners, while the employees will be the losers,« says Erik Kongsted.

## Greater competition in the future

In the slightly longer term, however, Erik Kongsted expects that rising insurance prices – and presumably higher profits for the pension companies – will increase competition in the market and pave the way for a split of the pension scheme into an insurance package and a retirement savings plan, so that the two products can be bought from different suppliers.

»Today we have a very narrow market with only five or six commercial pension companies offering comprehensive solutions. In the future we will see more providers specialising in either insurance or pensions – for example Euro Accident on the insurance side and Nordnet and Pensions on the pension side – so companies will have more choice. This will drive down prices and lead to even better terms and conditions,« says Erik Kongsted.

The new regulation is in effect as of 1 January 2022 and only applies to contracts entered into after this date. WTW is ready to provide advice and guidance to any client who wants to know more about what the new regulations will entail for them and their employees.