

Release Date: 05/06/2001

UNEMPLOYMENT AND THE INSURANCE COMPENSATION PRINCIPLE IN BRITAIN AND GERMANY

Executive Summary:

Background

Concerns about the rising cost of social security have made welfare reform a central element of government policy in Britain and Germany. Contributory and means-tested unemployment benefits have been reduced in both countries. Recently, private insurers have been offering unemployment insurance as a supplement to public benefit. The present report brings together the findings of two consecutive research projects undertaken in Britain and Germany between 1996 and 2000, which investigated people's attitudes towards private unemployment insurance.

Aims and objectives

The rise in flexible labour has made it more difficult for unemployed people to meet the increasingly stringent qualifying conditions for unemployment benefit. The research investigated the extent to which perceptions of the risk of unemployment and declining social security informed attitudes towards private unemployment insurance. It explored the influence of social, psychological and cultural factors on attitudes. The aim of the study was to assess the scope for private social security insurance in a comparative context.

Method

The two studies used similar qualitative and quantitative research methods. These included:

- a national representative survey ('omnibus survey') of over 1,000 people in employment each in Britain and Germany;
- an analysis of longitudinal data from the British Household Panel Study and the German Socio-economic Panel; and
- in-depth interviews with waged and unwaged households and with individuals with private unemployment insurance.

Findings

Job insecurity:

About 7 per cent of people in work in Britain expected to lose their job within one year after being interviewed in November 1997. This compared to approximately 16 per cent of employed people in Germany interviewed in September 1999. The greater sense of insecurity was likely to have been a reflection of unemployment at the time rising in Germany, but declining in Britain. Over time, perceptions of the risk of unemployment proved largely accurate, but in both countries only a minority of the unemployed had anticipated that they might lose their job.

There was a strong belief that legal protection (Germany) or often informal business practices (Britain) reduced the risk of redundancy. Households often felt they would be able, as a unit, to cope with the financial repercussions of

unemployment. Single- and low-income households were clearly disadvantaged in this respect.

Welfare attitudes and private insurance:

The qualitative work highlighted considerable support for the public provision of welfare. Fraud, however, was an issue, especially in Britain. In Germany, unemployment benefit was mostly seen as adequate temporarily to sustain one's living standard. This was not the case in Britain. People were critical of the practice of means-testing unemployment benefit, especially taking account of a household's savings. Low levels of public benefit encouraged informants to consider, or take out, private insurance. Between 5 and 6 per cent of people in work claimed to possess private unemployment insurance.

The prospects for private unemployment insurance:

About 23 per cent of people in employment in Britain and 12 per cent in Germany intended to acquire private unemployment insurance in the future. Younger people in both countries were more likely to express an interest in this type of insurance than older people. However, there were also differences between the countries. In Germany, people who felt at risk of unemployment or who were employed on temporary contracts were particularly likely to consider taking out private unemployment insurance. In Britain, people with partners who had repeatedly been unemployed were disproportionately likely to consider this type of insurance. In both countries, psychological factors affected insurance attitudes.

Saving and investment were often preferred to insurance as a means of cushioning the financial impact of unemployment in a household. This reflected a desire among informants to obtain a return on money set aside. It also reflected financial constraints, especially in low- and medium-income households.

There was little evidence of potential moral hazard (people deciding to become unemployed). However, people thought private insurance might give them more time to look for a job. There was more evidence of adverse selection (people with a high risk of unemployment seeking to insure): people who had been repeatedly unemployed (Britain) and people who felt at risk of unemployment (Germany) were disproportionately likely to consider private insurance.

Delivery of social security:

Informants in both countries were concerned about financial exclusion, private insurers putting shareholders before customers, and value for money. Most informants preferred public to private provision of welfare and some expressed a preference for a mixed public–private provision that would safeguard a minimum of social security for those less well off. In Britain, private provision was supported above all on grounds of increased service or benefit levels. In Germany, private provision was supported primarily because it appeared to offer greater control over resources (entitlement) as well as better services and higher benefits.

Policy and practice:

The research highlighted the limits to increasing the role of private unemployment insurance in Britain and Germany. It revealed people's concerns for high-quality and high-level social security, be it delivered by the public or the private sector.

Greater self-provision through private insurance looked unlikely to be achieved by appealing to people's 'rational' sense of protection. People feel adept at managing risk situations and ignore warnings that risks, such as unemployment, and their repercussions for the household are often unpredicted and perhaps unpredictable. Social security policy can help alleviate risk situations by taking greater account of household strategies designed to cope with risk. Long-term social security perspectives are required, which may build on people's preferences for personal insurance portfolios. There is a fundamental commonality in welfare preferences in Britain and Germany, which could provide scope for developing a common, perhaps European, model of social security.

-ENDS-

contact

Nina Frentrop, Anglo-German Foundation, 17 Bloomsbury Square, London WC1A 2NH, UK
Tel: (0)20 7404 3137 Fax: (0)20 7405 2071 E-mail: nf@agf.org.uk
Andrea Cebulla, Loughborough University, UK
Tel: +44 (0)1509 213409 E-mail: A.J.Cebulla@lboro.ac.uk

notes to the editor

'Unemployment and the insurance compensation principle in Britain and Germany', by Andreas Cebulla, Hubert Heinelt and Robert Walker, is published by the Anglo-German Foundation (ISBN 1-900834-26-x). Copies are available from YPS, 64 Hallfield Road, Layerthorpe, York YO31 7ZQ, telephone 01904 431 213, price £12.

notes to editors

1. The Anglo-German Foundation for the Study of Industrial Society was established in 1973. The Foundation is an independent bilateral body which funds comparative research and sponsors British-German events in the economic, industrial, environmental and social policy field in both countries.
2. Review and reference copies of the report are available from the Anglo-German Foundation.
3. The study was undertaken by Andreas Cebulla (Centre for Research in Social Policy, Loughborough University), Robert Walker (Centre for Research in Social Policy, Loughborough University, now University of Nottingham) and Hubert Heinelt (Institut für Politikwissenschaft, Technische Universität Darmstadt).

We would be grateful for copies of articles published.