



Health Insurance & Protection

BOARDROOM BRIEFING

GROUP RISK

- RAISING AWARENESS
- THE DIRECTION OF THE MARKET
- PROVIDER AND INTERMEDIARY SENTIMENT
- CONSULTATIVE CHALLENGES



In association with



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A BIG YEAR ON THE CARDS

The highs and lows of life in group risk



2012 looks set to be a big year for the group risk market. Riding high on the back of national advertising campaigns which boosted consumer and employer awareness of protection in 2011, insurers and intermediaries head into the next twelve months with a renewed sense of optimism.


In fact, while participants at this year's *Health Insurance* Group Risk Boardroom Briefing, held towards the end of 2011, suggested that the economic downturn poses big challenges across the sector, there are a number of reasons why the market is in fact in a healthier shape than in some years gone by.

In addition to increased awareness about both individual and group protection, panellists at the briefing said that a fruitful dialogue with Government has been established, while apparent challenges such as auto-enrolment could in fact open up opportunities for sophisticated consulting.

Nonetheless, insurers and intermediaries also head into 2012 aware that challenges remain too. As rates continue to harden, there remain differing opinions as to whether this will make the market more sustainable or whether providers will simply become more selective in deciding which schemes they want to offer terms for. And as providers continue to enter and exit the market, questions remain over what impact that will have on choice for consultants and their clients.

There will be broader questions to answer too. Since this briefing was held, a Government-commissioned report into the health of the working age population suggested that while employer-funded private medical insurance for lower-paid employees should attract tax relief, group risk benefits such as income protection should not. The report, led by Dame Carol Black, also recommends that tax relief on employee assistance programmes be retained. But while group risk insurers have said they were "heartened" by the recognition of the value of the services they offer such as rehabilitation, they remain disappointed that it did not recommend some kind of financial incentive which would encourage more employers to provide health & risk benefits to an increasingly vulnerable workforce. What will happen in 2012 and beyond?

In any case, as the group risk market evolves over the coming years, one thing rang true throughout this *Health Insurance* Boardroom Briefing: insurers and consultants alike continue to play a vital role in supporting individuals and employers should illness or disability strike. The figures speak for themselves: towards the end of 2011, trade body GRiD published pan-industry statistics which show that group risk insurers paid out a total of £292.3m in income protection benefits in 2010, helping 13,500 families to avoid financial devastation as a result of illness or disability.

Add to that the increasingly broad and sophisticated range of support and preventative benefits provided by the group risk sector and there is little doubt that it will remain key in 2012 – and long beyond. 

DAVID SAWERS, EDITOR

If you would like to comment on this, or on any of the issues raised in the magazine, please email david.sawers@informa.com



Karen Gamble
Gallagher Employee Benefits



Steve Bridger
Aviva UK Health

Market share and profitability

The economic climate is causing group risk providers to alter their strategies – depending on their make-up

ON THE AGENDA

- What has happened to rates – and what lies in store?
- Are insurers becoming more selective?
- Can pricing and sustainability be better balanced?
- Is market share less important to providers than before?

Britain's group risk industry stands at a crucial juncture in its development and could prove vital to the future success of businesses up and down the country, as well, of course, as looking after individuals should they fall victim to illness or disability.

A panel of leading employee benefit consultants and group protection experts gathered together for *Health Insurance's* Group

Risk Boardroom Briefing 2011 agreed that issues such as pensions auto-enrolment and increased awareness about group risk benefits will result in the evolution of the market in the short-to-medium-term and beyond.

Karen Gamble, director of health & wellbeing at Gallagher Employee Benefits, suggested that the group risk sector stands "at a bit of a crossroads at the moment" as the broader economic environment causes insurers to take stock.

"Insurers are putting more emphasis on profitable orders and books rather than just market size," she told the meeting. "It happens every few years – you get a shift, a change where premium rates increase and we are going through that now."

Steve Bridger, head of group risk at Aviva UK Health, the insurer, agreed that rates have been hardening across the market.

"It's almost about time because we don't see a cycle the way general insurance does," Bridger suggested. "It's probably got to the point where [...] it is as much about profitability as it is about market share."

A number of panellists expressed support for this move towards greater sustainability in terms of pricing. But while Chris Ford of Jelf Employee Benefits said that he "welcomed" more sustainable pricing in the market, hardening rates, of course, present challenges to consultants and their clients.

"We are now in a position where rates are starting to hike and we are having discussions about 30%, 40% rate increases which are actually just returning the scheme to what it was a few years ago," Ford said. "The danger is that group risk is still too far down the pecking order of an employer's spend so it brings more consultative challenges for us."

There were differing opinions on what those challenges might mean for EBCs.

Paul White of Enrich, the EBC, said: "Some insurers – and others will follow – are saying what's more important to them is profit margin rather than volume of business. For us as intermediaries, that's not necessarily a bad thing because it means business moves around, clients can see our value a bit better. It happened before in the late 1980s."

White added: "At the end of the day we [consultants] want the cheapest price. That's the bottom line and issue number one. Issue number two is that as an industry it probably has been underpriced. Insurers have been telling us for years and years that it's underpriced but the reality is that it's not our fault, that's the insurance companies' fault for underpricing it. Ultimately for us change is a good thing. A static market where nothing much is happening isn't particularly good for intermediaries. We like change, whether it's legislation, whether it's changing rates, things that force clients to do things. By and large clients won't do anything unless something makes them do something. So it's probably a good thing for the market as a whole although lots of clients won't necessarily feel that way when they are faced with long overdue premium increases."

There is also the possibility that insurers will become increasingly more selective about the risks they are prepared to take on, panellists suggested.

Rebekah Haymes of Towers Watson said: "We could be faced with the situation where insurers are going to be more selective. It could

"Ultimately for us change is a good thing. A static market where nothing much is happening isn't particularly good for intermediaries"

Paul White, Enrich

actually make our jobs as advisers more difficult because insurers are going to shy away from a less than attractive scheme. Insurers could begin offering rates that are just not going to be competitive so you could find that the market shrinks even more."

Gallagher's Gamble added: "Insurers collectively have now decided they aren't going to get that much change in the marketplace. We don't switch business very often. We go out to market every two years religiously, but we don't switch. There is some fairly aggressive pricing to keep what you've had for a few years."

There is also evidence that the economic downturn is having a negative impact on claims and morbidity.

Towers Watson's Haymes explained: "We are seeing evidence that claims are increasing, sadly, because there is an increase in suicide because perhaps of the economic environment that we're in."


Jelf's Chris Ford added: "People are staying off longer despite all the efforts around rehab and intervention because of the [economic] climate. Those income protection [IP] claims are becoming longer duration claims."

"IP morbidity is worsening," Aviva UK Health's Bridger agreed. "Whether it be cancer, neurological or cardio or simply musculoskeletal and psychological conditions, you [the market] are seeing the cost of claims go up. I think all providers have seen that."

There is an implicit irony, Ford suggested, in the fact that some insurers are not attracted to those schemes with worsening morbidity. After all, history suggests those are often the schemes where there is most room for improvement.

Enrich's White added: "If you go back to maybe a decade ago, nobody would touch blue collar business because the perception was bad. There were one or two insurers that would touch it for IP but the reality is that was, potentially, very profitable business. We recognised that the instance of claims was going to be higher but the potential to manage it was much, much greater."

While Aviva UK Health's Bridger stressed that he does not believe there is "a price for anything", his organisation remains well placed to turn poorly performing schemes around.

"You can take a bit of rough with the smooth," he said, adding: "We would rather pick 'poor' performing risks – those that aren't performing as well as they could be – because as long as you [an insurer] have a well balanced book, with diversification of risk, you can support that. You can turn some poorer performer ones into good. The challenge with that is sustainability because as soon as you make it look good, someone is going to come in and undercut." 



Rebekah Haymes
Towers Watson



Paul White
Enrich



Chris Ford
Jelf Employee Benefits

THE PANEL



SUBJECT: GROUP RISK

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CHAIR: DAVID SAWERS,
EDITOR, *HEALTH INSURANCE*



Steve Bridger

Aviva UK Health

"We've got to be able to drive the market at the right pace that the customer wants, not because we've set the tone"



Nick Cosh

PMI Health Group

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GRID

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Willis Employee Benefits

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Karen Gamble

Gallagher Employee Benefits

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Andy Stephenson
Aviva UK Health



Richard Colver
Willis Employee Benefits

Market mechanics

In the wake of provider entrants and exits, the way in which the group risk market operates is changing

ON THE AGENDA

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The way in which the group risk market actually functions was on the agenda during this year's *Health Insurance* Boardroom Briefing, both in terms of the choice that is available to consultants and their clients and the structure and strategy of individual providers too.

Recent years have seen new entrants and exits in the group risk market, both in terms of providers who are brand new to the scene and

those who have emerged as a result of mergers & acquisitions. Strategies – especially in terms of pricing – vary markedly depending on an individual provider's make-up, panellists agreed.

"It's a small market, don't forget that," said Andy Stephenson of Aviva UK Health. "In terms of relative players, there aren't a huge number of insurers out there competing for the business so you will get some of the newer players competing more aggressively on price to try and gain some kind of foothold into the marketplace versus the more traditional older players in the marketplace that are trying to retain business and grow profit."

Chris Wall of Lorica Employee Benefits, the corporate advisory firm, agreed that longer-established providers can, because of the fact that employers are keen to maintain current benefits without having to self-insure, "almost name their own price".

"It's only the good risk which is moving around the market," Wall said. "The smaller players that want to build their own book will, at least for the short-term, for the next 12 months at least, be able to undercut or charge a lower premium than the more established larger insurers that have already got that substantial book in the marketplace."

What impact those varying strategies will have for employers in the long-term – and after all group risk remains a long-term business – remains to be seen, panellists agreed. However, there was little doubt across the panel that there remains sufficient choice in the group risk market for consultants and their clients.

"There have been mergers and acquisitions and new providers join and providers leave but fundamentally the number of players stays relatively stable," said Paul White of corporate consultants Enrich.

Karen Gamble of Gallagher Employee Benefits said that the “diversity” of insurers in the group risk market is in fact “quite good”.

“We’ve got composite insurers, we’ve got single product insurers, there are some Lloyds brokers who are in there for the life insurance side of things,” she said. “There is a reasonable diversity of UK, foreign, composites, non-composites.”

Nick Cosh of PMI Health Group, the corporate advisers, added: “It is a small market but there are enough insurers to be able to provide a client with an option in terms of provider choice. There are still options in terms of provider choice.”

The importance of continued strong relations between providers and intermediaries was also on the table during the meeting. By working together, both parties can ensure that pricing remains sustainable and that the true value of group risk benefits is appreciated by employers and employees.

Katharine Moxham, who has held senior roles in the employee benefits sector and now represents group risk trade body GRiD, said: “When you go to the trouble with a client to set up something that really works well with the provider and you have that interaction, it may involve three or four meetings a year and certainly almost daily contact between a provider and the client in terms of managing their absence.”

Gallagher’s Gamble added: “Intermediaries are the ones on the ground that can tell insurers where in certain sectors and certain places in the country price increases are sustainable. We can also tell you where the industry is suffering so badly that they can’t sustain those prices.”

Aviva UK Health’s Stephenson stressed that while price is of course “important”, the role that intermediaries play in helping employers to recognise the true value of these scheme should not be underestimated.

“Maybe it’s a little bit undersold in the marketplace,” Stephenson said. “Do employers really value the schemes they’ve got in place and the benefits there?”

Concerns were raised during the briefing, meanwhile, that the emergence of increased automation technologies throughout the group risk market, in the SME sector specifically, could have a negative impact on this dynamic. Recent years have seen some insurers move to introduce automated quotation systems which some observers have suggested devalue the role of the intermediary in the advisory process.

Gallagher’s Gamble was not alone when she suggested that while technology has a role to play in driving efficiencies throughout the group risk market, it remains crucial that



Chris Wall
Lorica Employee Benefits

“Automation has its place but that depends on the style of risk and the clientele as well”

Chris Wall, Lorica Employee Benefits

the intermediary remains at the heart of the consultative process.

“What I’m trying to push is a tripartite arrangement on the smaller book of business as much as the bigger book of business,” she said. “One of the dangers that I see with automation is removing ourselves, distancing ourselves from that risk.”

Lorica’s Wall said that while automation “has a place” in the market – not least for those intermediaries which carry out only a small volume of group risk business – it has its inevitable shortcomings.

“In my view it’s got its place but that depends on the style of risk and the clientele as well,” he said. “Sometimes the more traditional brokering position and the viewing of the additional services may be of more credit to the whole of the market.”

Enrich’s Paul White remains equally cautious. He said: “You’ve got to be very careful the way you use technology if all you do is use technology to automate what you currently do.”

Richard Colver of Willis Employee Benefits said that employers should ask themselves what the role of their intermediary actually is.

“Are you buying consultancy services or are you buying transactional services?” he asked. “Because if you are buying transactional services and you want me to go into the market and find the cheapest deal, that is a completely different conversation from ‘let’s look at the



Nick Cosh
PMI Health Group

design, let’s look at the liability, let’s look at the risk of the company and then design some insured and non-insured solutions.”

Colver was one of a number of employee benefit consultants at the briefing who pointed out that the role of the intermediary can extend well beyond traditional health & risk benefits into areas such as employers liability and personal accident insurance.

“I’m actually embedded in the general insurance team so I hear it all day and actually think about it,” he said. “It makes an awful lot of sense from an employer point of view. If you were looking at setting up an insurance market, you certainly wouldn’t put it in the silos that it’s in in the UK, you’d probably look more towards the Australian-type of model.”

The market should also not lose focus, according to Aviva UK Health’s Steve Bridger, of the customer value proposition.

“If it [automation] is driven just from the provider to manage expenses then that’s the wrong reason to do it, although there is a place for that,” he said, adding “we are here to help people when they need us most, when they are the most sick or vulnerable or at time of death”.

“That’s what we are all about,” he continued. “If we move too far into automation, you lose your relationship, you lose the value of what we are about. We shouldn’t mechanise this. We should, where it’s possible, design the process and proposition around what is needed and take away waste, absolutely. We help a lot of people every year live and we help a lot of people’s dependents to have financial security at least to carry on in a difficult time in the case of death. Focus on that and then focus on growing the market and raising awareness.”



Paul White
Enrich



Rebekah Haymes
Towers Watson

Raising awareness

The lack of awareness among individuals and employers about the importance and availability of group risk and protection products is at last being addressed

ON THE AGENDA

- What has GRiD achieved in terms of dialogue with Government and beyond?
- What impact will national television advertising campaigns have?
- Is auto-enrolment an opportunity or a threat for group risk?
- Is the group risk market ready for increased activity?

Raising awareness – both among employers and employees – about group risk has always been a challenge that the insurance industry as a whole has struggled to address. Yet panellists at this year's *Health Insurance* Group Risk Boardroom Briefing said that this was all beginning to change.

Major advertising initiatives across the mainstream consumer media, ongoing efforts

by trade body GRiD and the imminent arrival of auto-enrolment for pensions all should mean that protection is much higher up the agenda for both individuals and employers than in previous years.

The efforts during 2011 of GRiD were applauded at the briefing. During the year, GRiD published, for the first time, a pan-industry analysis of the total payments made for group income protection [GIP] claims in the UK. The statistics suggest that a total of £292.3m was paid out during 2010, helping a total of 13,500 UK families avoid the financial devastation of loss of earnings through disability, illness or injury. New claims in 2010 alone made up £82.3m of that figure, while the figures also reveal the average annual GIP benefit stands at £21,500, or just £2,500 less than UK average earnings.

"The publication of industry claims data really shows how far we've come as an industry, that we have been prepared to work with everyone to provide that," Moxham said.

Aviva UK Health's Steve Bridger added: "It's evidence of what this industry does – we help people. [...] This industry isn't about admin, it's about helping people when they need help and we do a lot of it but we don't tell anyone. We don't tell anyone as providers well enough, let alone as an industry."

Panellists suggested that this began to change in 2011, as high profile advertising campaigns by both Aviva and Unum brought the concept of protection to a national television audience of millions. While the impact of those campaigns is yet to be analysed in full, there was widespread support at the meeting for the initiatives.

Participants also expressed their support for GRiD's efforts to raise awareness of group protection at a public policy level as well as in the trade and consumer press. Notable among GRiD's other achievements during recent months has

been the exception of group risk benefits from default retirement age legislation. Participants at the briefing said that without such an exception employers might cease to offer benefits and GRiD's efforts to forge stronger relations with the Department for Work & Pensions proved vital in ensuring this was not the case.

GRiD spokesperson Katharine Moxham told panellists that the organisation's efforts would continue amid an important legislative era for the industry. 2012 will see, for example, the introduction of auto-enrolment, which will mean workers are automatically enrolled into their employer's qualifying pension scheme without any active decision on their part.

At present, many workers fail to take up valuable pension benefits because they do not make an application to join their employer's scheme. While auto-enrolment is meant to overcome this, concerns have been expressed that this could lead to some employers scaling back their spend on other benefits – including products such as GIP.

However, panellists were nonetheless bullish about the future of group risk. Rather than witnessing a scaling back of benefits by businesses, participants said they expect to engage in an increasingly meaningful dialogue with a broad range of companies about the importance of group protection.

Lorica Employee Benefits' Chris Wall said: "It [auto-enrolment] is a huge opportunity. We've got to stop the doom-mongers. It's just a good opportunity for those people that know what they are doing to talk and consult."

Likewise, Nick Cosh of PMI Health Group, another employee benefits consultancy, said: "You've got a change in legislation which is forcing an employer to look at his benefit structure. [...] At least then you are having the

GROUP RISK – THE FACTS

- A total of **£292.3m** was paid out in group income protection benefits during 2010
- Group income protection benefits helped a total of **13,500** UK families avoid the financial devastation of loss of earnings through disability, illness or injury
- New claims in 2010 alone made up **£82.3m** of that figure
- The average group income protection benefit stands at **£21,500**, or just **£2,500** less than UK average earnings

Source: GRiD (www.grouprisk.org.uk) GRiD's claims data research was undertaken among its provider members and the figures provide an accurate representation of the current group risk market. Respondents provided figures for group life, group income protection and group critical illness claims for both 2009 and 2010.

"It's going to raise employee awareness of pension provision, saving for the future and hopefully get them thinking about what's important"

Katharine Moxham, GRiD

conversation whereas previously you weren't. So that's the opportunity."

"What auto-enrolment is going to do is make everyone ask themselves where they are spending their money," added Karen Gamble of Gallagher Employee Benefits. "That's where we've got the opportunity to put our case forward."

GRiD's Moxham pointed out that the group risk market has held up well year-on-year and one of the reasons for that could be that once employers have actually given the benefits to staff they find it very hard to remove them.

"It involves changing contracts, negotiations and so on and so forth," she said. "Maybe we are a bit oversensitive about the potential threat [of auto-enrolment]."

Moxham added: "It's going to raise employee awareness of pension provision, saving for the future and hopefully get them thinking about what's important to them and perhaps we'll see the flex market develop. Hopefully it's going to help the mindset of employees to think about what's important to them and it's a huge opportunity."

In fact, the outlook for the group risk market could in fact be so bright that some panellists said it was vital the sector is prepared for any potential influx of new business.

Jelf Employee Benefits' Chris Ford said: "Yes, raising awareness is great, yes there is a need there, but we are opening up a new market and are we really ready for that? We've got to look at ourselves as well and how we are going to gauge that and how we are going to make it work."

Aviva UK Health's Steve Bridger added: "The market is ready for growth but if it has an explosion, be careful what you wish for. Are we capable and do we have the capacity as an industry to get a consultant to everyone? The market won't grow at that rate but we've got to be able to drive it at the right pace that the customer wants, not because we've set the tone."

What remains certain is that intermediaries will remain absolutely fundamental to the future success of the group risk market, Bridger said.

"I could sit here now and say 'you know what, let's just go direct, we could cut around intermediaries,'" he said. "But it's not going to happen. First, there is the complexity, second there is the relationship and third is the cost of acquisition in the direct model. I don't see our approach to distribution changing significantly."



Katharine Moxham
GRiD



Steve Bridger
Aviva UK Health



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