

# A GUIDE TO **GROUP RISK**

JULY 2011



IN ASSOCIATION WITH



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# Green shoots of growth



In recent years the group risk market has been characterised by highly competitive pricing as employers seek to cut costs and intermediaries fight over precious business. Although the UK has now officially emerged from the recession, cost concerns remain.

Insurers recognise the importance of offering employers value for money. As Steve Bridger, head of group risk at Aviva, puts it "price has always been a determining factor". Nevertheless, there are signs that more could be done to educate employers about the many services that accompany the basic group risk contract. As highlighted in a recent report by thinktank Demos, the insurance industry has an extremely impressive record in returning absent employees to the workplace. Intermediaries tell us that they recognise their role in telling this story to employers, convincing them of the benefits of early notification of absence and engagement in the rehabilitation process. Encouragingly, a recent Aviva survey found that almost two-thirds of employers believe that they share responsibility with their employees to help workers back into the workplace following sickness absence.

This finding is likely to be welcomed by the Government, which is currently investigating how the costs of returning people to work are shared between individuals, employers and the State. The review of sickness absence, commissioned by the Department for Work and Pensions and headed up by Dame Carol Black and David Frost of the British Chambers of Commerce, is just one of a number of recent developments that may trigger growth in the group risk market. In fact, Aviva believes that intermediaries have "lots of opportunities" to start conversations with clients at the moment.

The exception for group risk benefits from the phasing out of the default retirement age and radical pensions reform are both issues that provide intermediaries with opportunities to offer employers the value of their expertise, particularly if they work in partnership with colleagues working in other areas of employee benefits. We look at all of these developments in this guide to group risk.

We hope you find the following chapters useful in helping you navigate group risk in 2011. Our thanks go to the intermediaries who shared their experiences with us to inform this publication. Turn to chapter four to find out what happened when we put their questions directly to Aviva and do let us know if there are other areas you would like us to explore in the coming months.

Happy consulting!

**Madeleine Davies**

Deputy Editor

# Where are **we today?**

Industry figures for 2010 suggest that the group risk market remains highly competitive with intermediaries fighting for business from employers looking to save costs. **Madeleine Davies** surveys the current landscape and reviews some of the threats and opportunities on the horizon.



## **Q. HOW DID THE MARKET FARE IN 2010?**

**A.** Swiss Re's Group Watch 2010 report tells the story of a group risk market characterised by fiercely competitive re-pricing and little new business. While the amount of benefits underwritten by the industry increased for all three products (life, critical illness and income protection) the number of group life and group income protection (GIP) schemes fell, while premiums for the latter product dropped by almost 9% following a 12.5% drop in 2010. The reinsurer reported pressure

from brokers' clients for cost-cutting measures and an increase in the frequency with which they are reviewing their choice of adviser.

## **Q. WHAT IS THE ECONOMIC BACKDROP?**

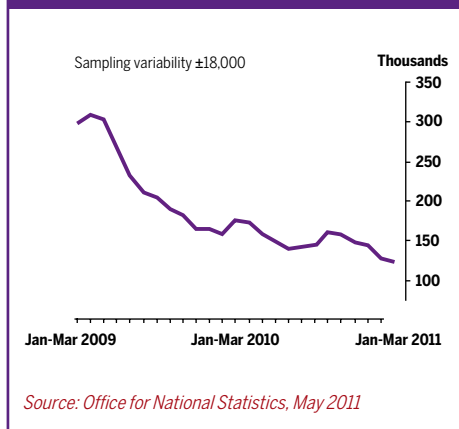
**A.** Market figures need to be viewed in the light of a challenging economic environment. After officially emerging from the recession at the end of 2009, there are signs that the UK economy is in recovery, albeit a very gradual one. This might result in slightly less tough

conditions for intermediaries seeking to persuade employers to increase benefit spend.

Figures from the Office for National Statistics show that gross domestic product (GDP) grew by 0.5% in the first quarter of 2011 while the total gross operating surplus of corporations rose by 1.4% and is now 6.5% higher than in the same period last year. The unemployment rate stood at 7.7% compared to 8% in the first quarter of 2010, while total pay rose by 2.3% year on year. Statistics also show that in the first three months of the year 123,000 people had been made redundant – a rate of 4.9 redundancies per 1,000 employees, compared to 7.1 a year earlier.

Despite these green shoots, intermediaries report that employers are still cautious about expenditure, with benefits and pricing under scrutiny. However, there is some speculation that salary increases may be accompanied by employees enjoying greater bargaining power for benefits.

#### REDUNDANCIES (SEASONALLY ADJUSTED)



#### Q. WHAT WAS THE GOOD NEWS?

**A.** In-force premiums for both group life and group critical illness rose by 2.3% and 3.8% respectively in 2010. The latter product saw the number of schemes

grow by 6.6% and the number of lives increase by 10.2%. Swiss Re's research also highlighted a high level of scheme retention, suggesting that brokers and insurers are doing a good job of proving the value of benefits to existing clients.

The industry also celebrated winning an exception for insured group risks benefits from legislation abolishing the default retirement age, a reprieve from a move which threatened to render the benefits unaffordable. Some industry commentators also identified opportunities for providers in the shape of changes to pensions, including auto-enrolment in 2012 and a growing interest in "de-risking" pensions in addition to renewed salary growth following the recession and a shift from state to employer provision of financial protection. We look at these opportunities in more detail in chapter three.

#### Q. WHAT ARE THE LONG-TERM TRENDS IN GROUP RISK?

**A.** Following two years of growth, group life premiums dropped by 5.1% in 2009 and despite a rise in 2010, they remain lower than in 2008. In GIP the contraction is more severe, with premiums still 15% lower than in 2006 following two consecutive years of reduction. Critical illness premiums have grown steadily and are now 44% higher than in 2006.

In the GIP market, 10.1% of schemes (of the 77.6% of providers able to supply Swiss Re with relevant data) were written with a limited payment term, up from 6.7% in 2008. Intermediaries and insurers who responded to the reinsurer's survey expect more employers to move towards such schemes in future.

The report also signals some move towards flexible benefits. Six per cent of in-force death benefits premiums are written on a flex basis, up from 5.7% in 2009 while 52.6% of group critical illness premiums are written on this basis, up from

48.7% in 2009. Swiss Re has noted that there remains “some uncertainty” as to how the ban from 21 December 2012 on gender-specific pricing might impact on flex benefits.

#### Q. ARE EMPLOYERS INCREASING SPEND ON BENEFITS?

**A.** In October 2010 GRiD’s survey of 500 employers found that 37% were planning to increase their investment in benefits in 2011. The Chartered Institute of Personnel and Development’s survey of 523 organisations in 2010 found that one fifth were planning to increase their spend on health and wellbeing. Whether

this will materialise is yet to be seen, but research suggests that intermediaries and insurers could do more to educate employers about the links between the health and wellbeing of their staff and productivity. Just 17% of the CIPD’s respondents were evaluating the impact of investing in employee wellbeing but these firms were twice as likely to increase their spend.

Encouragingly, Aviva’s survey of employers, carried out in March this year, found that almost two-thirds (63%) believe it is the joint responsibility of employers and employees to help workers back into the workplace following absence. This suggests that those benefits that facilitate the return to work are likely to be valued by employers.

#### EMPLOYERS ON GROUP RISK BENEFITS

- **One third (33.3%)** of public sector employers said that their average employee takes more than five days off sick per year, compared to **15.9%** in the private sector
- The most commonly cited reasons for absences of over four weeks are home and family issues (**16.8%**), stress (**15%**) and acute medical conditions such as heart attacks and cancer (**14.8%**)
- **49%** of companies without group life cover would consider implementing a policy when pensions auto-enrolment comes into force
- **84%** said the value of benefits package had been maintained over past 12 months
- **37%** are considering increasing their investment during 2011
- Of the **41%** with group risk benefits, **37%** believe they help to recruit and retain key personnel and **25%** said they help recoup benefit spend through increased productivity and staff morale.

*Source: GRiD survey of 500 employers, October 2010*

#### IN-FORCE PREMIUMS 2008-2010

PRODUCT TYPE	IN-FORCE PREMIUMS (£) 2008	IN-FORCE PREMIUMS (£) 2009	IN-FORCE PREMIUMS (£) 2010
Death benefits	945,210,629	897,285,169	918,275,066
Group income protection	648,902,366	567,971,284	517,317,817
Critical Illness	45,403,103	48,393,386	50,252,281

*Source: Group Watch 2011, Swiss Re*



## ANALYSIS

**HOW LONG CAN PRICE CUTTING CONTINUE?**

Steve Bridger, head of group risk at Aviva UK Health, believes that “price has always been a determining factor” but that both providers and intermediaries need to be conscious of the risks of a relentless downward pressure on pricing.

“The issue is, how sustainable is the current price point?” he says. “Providers agree that we should not just keep chasing rates down. There is nothing worse than under-pricing and then not covering the true risk cost. However, for me, responsibility probably sits more with the broker. Group risk propositions are sold and not bought and brokers need to match the proposition to the client’s needs. In the medium and long term doing the right thing for the customer is doing the right thing for the market. You want a sustainable price and the peace of mind that comes with the certainty of good service.”

Karen Gamble, director of health and wellbeing at consultancy Heath Lambert Employee Benefits, agrees that intermediaries have a responsibility to educate clients.

“Price is a major part of the buying or even renewing decision as businesses are strapped for cash,” she reports. “The original purchaser is long gone from the business and there has been little or no communication with employees so there is little or no value to the benefits being provided, particularly GIP, so it becomes just another business expense. Also, we as intermediaries don’t all act professionally, pointing out the pitfalls of switching insurers, for example.”

John Heatley of national intermediary PMI Health Group agrees that intermediaries need to focus on the client’s needs, although these might centre on reduced costs.

“If you only have two weeks before renewal then it is tempting to go on price but if you sit down with the clients six months earlier and get a steer from the current insurer on what the price is likely to look like you can then discuss what the most important thing for the client is at the moment,” he says. “We can’t run away from competitive pricing at the moment but we have to look at what the client is looking to do in terms of claims management and rehabilitation.”

Paul Burt, director at intermediary Xafinity Consulting, agrees that intermediaries have a role to play in going beyond price.

“There are moves to bring a bit of sanity to the market and I don’t think that is a bad thing,” he reports. “If there is a continual push down on price then that squeezes the insurers’ margins and puts them in a position where they ask the question ‘is this a game we want to carry on playing?’ We as advisers have a role to play in managing clients’ expectations. We need to highlight the benefit of the proposition, not just the bottom line aspects.”



# How is group risk helping to address the absence challenge?

According to the Confederation of British Industry (CBI), more than a third of organisations have set an explicit target for reducing absence over the coming year. **Madeleine Davies** looks at the risks posed by ill-health and how insurers are helping employers address them.



## Q. HOW IS ABSENCE AFFECTING UNEMPLOYMENT?

**A.** According to the CBI, absence rates have fallen by more than a quarter since the 1980s. The average rate of absence in 2010 was 6.5 days per employee, just slightly up from a record low of 6.4 days in 2009. Absence remains higher among manual employees and in the public sector while average levels of absence increase with the size of organisation.

However, notably for the group risk market, the amount

of working time lost to long-term absence has grown, from 20% in 2009 to 32% in 2010. On average, each absent employee costs an employer £760 a year. Absences of more than four weeks cost employers significant sums of money and the CBI's 2011 absence and workplace health report suggests that employers should facilitate a return to work for employees "wherever possible".

"The longer employees remain off work, the harder it becomes for them to be reintegrated into the workplace, with all the associated costs in human



and financial terms if they drop out of the workforce,” warns the report. “Early interventions and effective use of occupational health services have an essential role to play here.”

The link between this state of affairs and the group risk industry is currently of great interest in public policy circles, paving the way for constructive conversations with employers.

For example, a recent report by thinktank Demos (Of Mutual Benefit, 2011) described the rehabilitation interventions undertaken by income protection providers as “hugely successful”. It notes that while only 64.8% of people on long-term sick leave return to work within the first six months of becoming unemployed, insurers’ interventions can improve the probability of claimants returning to work by 43%.

#### Q. HOW ARE EMPLOYERS RESPONDING TO ABSENCE?

**A.** Encouragingly, the CBI’s findings suggest that employers are taking absence seriously. Almost all (95%) of those that responded to the organisation’s survey have an absence management policy in place. Many of the techniques that employers are using to manage absence form part of the group income protection (GIP) industry’s approach to facilitating claimants’ return to work. These include return to work interviews, giving line managers responsibility for managing absence and developing a rehabilitation plan. In fact, almost half (47%) of employers put such plans in place where appropriate.

The Chartered Institute of Personnel and Development (CIPD) reports that 48% of employers introduced a new or revised absence management policy in 2009 while for 21% absence rate became a key performance indicator.

However, the CIPD also reports that less than half of employers monitor the cost of absence, a concern echoed by Mercer, whose Europe-wide survey of

employers found that less than half (43%) of UK organisations recorded causes of absence and only 19% measured cost. A quarter of firms said they kept no absence data at all. Turn to page 19 for for Aviva’s approach to monitoring absence.

#### Q. WHAT ARE THE KEY CAUSES OF ABSENCE?

**A.** The key causes of absence are well-known among employers, intermediaries and insurers. Among both

#### WHAT ARE EMPLOYERS’ DUTIES OF CARE?

##### THE EQUALITIES ACT (2010)

- Prohibits discrimination on the basis of a number of characteristics including disability
- Disability is defined as a physical or mental impairment that has a substantial and long-term adverse effect on a person’s ability to carry out normal day-to-day activities
- Employers must make reasonable adjustments to help disabled employees to overcome substantial disadvantage in the workplace. This could include allowing an employee to be absent during working hours for rehabilitation or altering their working hours

##### HEALTH & SAFETY AT WORK ACT (1974) & MANAGEMENT OF HEALTH AND SAFETY AT WORK REGULATIONS (1999)

- Employers have a duty to ensure the health, safety and welfare at work of their employees. This includes addressing the risk of mental illness, including stress-related illnesses

manual and non-manual workers the most common cause of long-term absence, according to the CBI, is “non-work related mental health issues”. Other key causes include cancer and musculoskeletal disorders (MSDs).

**“We need to get a greater understanding among employers of what is available within IP products and services”**

**Paul Burt, Xafinity Consulting**

Employee benefits consultancy Mercer recently reported that 30% of income protection claims are now caused by mental ill-health and this finding is mirrored in the benefits system, where it has overtaken MSDs as the leading cause of awards for incapacity benefit (IB). Recent analysis published in the Journal of Occupational Medicine shows that the ratio of new IB claims for mental illness to those for MSDs more than doubled between 1997 and 2007. Researchers believe that this may reflect changes in people’s beliefs and expectations when it comes to their health, including a fading of the stigma attached to mental illness.

Later in this chapter we look at how the group risk industry is responding to mental ill-health claims.

### EMPLOYERS ON ABSENCE

- Only **2%** of employers believe it is the Government’s responsibility to help their staff return to work following a period of ill-health.
- **63%** believe that it is the joint responsibility of employers and employees to help workers back into the workplace following sickness absence.
- **Nearly a quarter** of employers (**21%**) think it is the staff member’s responsibility.
- **One in eight** businesses (**12%**) feel that it is solely up to them.
- **63%** of employers currently offer their staff one or more health-related benefits.
- Of those that didn’t offer any health-related benefits, **7%** are planning to take out additional cover in the next 12 months.
- If budget was available, the majority of employers would choose to take out group income protection (**21%**) or implement a workplace wellness programme (**20%**).

*Source: Aviva survey of 658 employers, March 2011*

### TOP CAUSES OF LONG-TERM ABSENCE

MANUAL EMPLOYEES	NON-MANUAL EMPLOYEES
<b>Non-work related anxiety/stress/depression (47%)</b>	<b>Non-work related anxiety/stress/depression (61%)</b>
<b>Other MSDs (44%)</b>	<b>Cancer (41%)</b>
<b>Chronic back pain (42%)</b>	<b>Other MSDs (31%)</b>
<b>Cancer (40%)</b>	<b>Chronic back pain (22%)</b>
<b>Heart / blood pressure problems (34%)</b>	<b>Heart / blood pressure problems (21%)</b>

*Source: CBI survey of HR staff in 223 organisations employing just over one million people. Data based on sickness absence Jan – Dec 2010*

## ANALYSIS

## HOW ARE INSURERS ADDRESSING ABSENCE?

While group risk insurers have, for some time, stressed the value of the rehabilitation services they offer to employers and employees, intermediaries believe that employers continue to require education about this element of group risk.

"Employers are still failing to notify early enough when an employee is absent," reports Karen Gamble of Heath Lambert Consulting. "They still don't really understand that an employee will stay on their books and can't be fired. Income protection is not a well-liked product and in today's financial climate employers don't really want it! We might get more buy in from HR if we sold it as a return to work programme with a bit of insurance thrown in."

PMI Health Group's Heatley believes that intermediaries should consider focusing on rehabilitation services in addition to discussions around price.

"If you have not got the right insurer to do rehab then you may have a cheaper cost in year one but if claims go through to year two then you are into the dark days of a heavy increase in price," he points out.

Carlos Correia, senior consultant for risk benefits at national intermediary LCP, believes that attitudes towards rehabilitation among employer "vary a lot."

"Some are very aware of the rehab aspects of IP and some of them are not so aware and think of it as more of a benefit," he reports. "The primary reason for providing it is to provide financial protection for your staff, not rehab. It is a very helpful by-product of it but it should not be the reason to purchase it and employers will generally recognise that. I do not think employers would welcome more responsibility from the state but most would try to do the right thing anyway."

"Employers need to understand that engagement is required at a very early stage and that they need to be

engaged throughout rather than just at the start or the end of absence," adds Xafinity's Burt. "We haven't yet been fully successful in getting that message across."

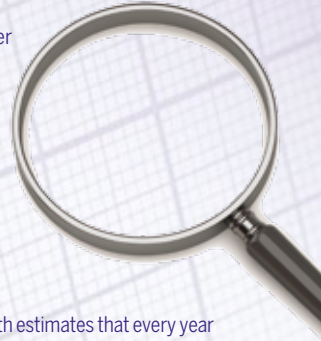
## MENTAL HEALTH

The Centre for Mental Health estimates that every year British businesses lose £26bn in sickness absence and lost productivity to mental ill-health in the workforce. As outlined earlier, this remains the leading cause of long-term absence and a primary cause of income protection claims. So are insurers doing enough to help employers address this risk?

"This links to the need to get a greater understanding of what is available within IP products and services," says Xafinity's Burt. "Are employers sufficiently geared up to be able to recognise the signs of mental ill-health? They could be missing lots of things that could be of benefit further down the line."

Aviva's Bridger confirms that the insurer is seeing more growth in mental ill-health as a cause of incapacity and believes the key is to treat claimants as individuals.

"We are working with psychiatric nurses and with the claimants' GPs to ensure we are doing the right thing," he says. "Our approach is not 'CBT for everyone'. A claimant may need CBT or another talkative therapy and we want to complement the plan that the GP may already have in place. It's about working together with the employer and line manager so they understand if there is a mental health issue that will prevail and continue or one we can improve upon. We should not say everyone gets the same treatment."



# What will trigger growth **in group risk in 2011?**

With the economy still in recovery from the recession, a Government intent on rolling back the protection afforded by the State and pensions set for radical reform, group risk intermediaries have no shortage of issues on which to advise clients. **Madeleine Davies** looks at some key topics of conversation in 2011 and asks where the triggers for growth might lie.



## **Q. WHAT GOOD NEWS CAN INTERMEDIARIES TAKE TO CLIENTS?**

**A.** In December 2010 the group risk industry celebrated securing an exception from the Government's legislation to abolish the default retirement age. This means that employers will continue to be able to place an age limit on employees' eligibility for group risk benefits. This is a

significant coup for the industry, given the increase in the cost of benefits that would have materialised had no exception been won.

Notably, this exception does not apply to insurance being provided through a trust, which may result in some employers taking a fresh look at insurance.

In addition to this victory, intermediaries can continue to offer clients some attractive rates for generous benefits, as evidenced by the Swiss Re Group

Watch figures which show employers are enjoying increased benefits for highly competitive premiums.

### Q. IS WORKPLACE HEALTH STILL ON THE CORPORATE AGENDA?

**A.** Workplace health hit the headlines in 2008 when Dame Carol Black published her landmark review of the health of the working age population. This shone a spotlight on the costs of sickness absence to the country as a whole and highlighted the lack of support available from the Government to employers seeking to keep staff well and at work. This, in turn, highlighted the potential value of the rehabilitation services offered by group risk insurers and occupational health providers.

The good news is that the Government's interest in tackling sickness absence remains strong. In February the Government announced a major independent review of the sickness absence system in Britain, to be headed up by David Frost, director general of the British Chambers of Commerce and Dame Carol Black, national director for health and work.

#### AREAS TO BE REVIEWED INCLUDE:

- How the current sickness absence system could be changed to help people stay in work, reduce and share costs for the taxpayer and businesses and contribute to economic growth;
- Whether the balance of these costs are appropriately shared between individuals, employers and the State;
- Tangible recommendations for change that are consistent with promoting private-sector growth and minimising burdens on business and in particular SMEs

*Source: Department for Work and Pensions*

The review will explore how the system can be changed so that more people remain in work, alleviating the current burden on the Government's welfare budget. Every year more than 300,000 people leave work to claim sickness-related benefits.

The public policy context is now ripe for intermediaries seeking to educate employers about the strong track record of the insurance industry in preventing long-term absence. As shown in earlier chapters, more employers are setting targets for reducing workplace absence, while public policy reports such as Demos' "Of Mutual Benefit" are highlighting the success of the insurance industry in returning absent employees to the workplace.

### Q. IS THE FIT NOTE WORKING?

**A.** The Fit Note was launched by the Government in April 2010 following Dame Carol Black's 2008 review. It replaced the traditional sick note and was designed to engage GPs in assessing what employees were capable of doing at work in a bid to change the perception that anything less than 100% fitness required time off work. Dame Carol Black has told the Work Foundation that it is likely to take five years for the impact of the change to be realised, as GPs get to grips with the new system.

The CBI's survey of employers suggests that, to date, the Fit Note has had a limited impact. While a quarter (23%) said that they had found it helpful with regard to rehabilitation policies, two-thirds said it had not move things forward while just one in eight (13%) have confidence that GPs have been trained sufficiently to use them correctly.

While it is to be hoped that, in time, the Fit Note will help employers in preventing long-term absence, the gradual rate of progress means that the expertise of group risk insurers in liaising between employers, employees and clinicians in facilitating the return to work remains highly valuable.



## ANALYSIS

**DOES PENSION REFORM PROVIDE OPPORTUNITIES FOR GROUP RISK?**

Pensions are currently undergoing radical reform, providing intermediaries with a range of opportunities to discuss group risk benefits with employers.

From April 2012 the maximum tax free value of pensions contributions at retirement will be reduced from £1.8m to £1.5m. It has been suggested that this could prompt employers to provide excepted group life policies, rather than lump-sum death benefits, as these do not count towards the lifetime allowance.

On a more radical scale, 2012 will see the launch of auto-enrolment, with employers compelled to enrol employees in a pension that meets the Government's requirements. Could this signal an opportunity for employers to take a fresh look at other benefits, notably group life?

Karen Gamble of intermediary Heath Lambert believes that while group risk schemes where eligibility is linked to pension scheme membership will grow in size, opt out rates will determine whether employees remain covered. She suggests that it may be "unlikely" that employers remind employees about the benefit they will lose by opting out. However, she believes that employers' interest in "de-risking" pensions is "a little ray of hopeful sunshine".

"Group risk specialists rarely stray into the world of pensions or even private medical insurance," she cautions. "While pension specialists are more used to dealing with pension trustees than the pure corporates, so a great deal of education will be needed. This will be the long game, not a quick burst of new schemes."

Aviva's Bridger believes that adding group life cover is an inexpensive way to improve the offering to employees.

"With the cost of group life being typically about 0.1% of salary roll, compared to pensions at 3-8% of salary roll, adding this benefit is not an expensive route to doing the right thing for employees," he says.

"From an employee point of view, if you have a defined contribution pension and have not been employed long then your fund is quite low. If you were to die at that point and had no death benefits in place then your fund will not be enough to pay to your dependents. Similarly, if you go off work in your 30s or even 50s and you don't have a big nest egg or pension fund then not only can you not work but you are not getting much income to live on or to save for the future. So with both a protection gap and a savings gap, there is a strong argument that says that while group life feels like a no-brainer for auto-enrolment, group income protection should also be considered as a way of de-risking defined contribution pensions."

Intermediaries agree that the pensions reform has also highlighted the considerable financial liability posed by the provision of ill-health early retirement pensions and the potential for group risk to protection employers from this.

"I don't think employers have had an appreciation of the cost of ill-health early retirement pensions in terms of the impact on a pension scheme, so as those issues become highlighted there is scope for IP to fill that space," reports Xafinity's Burt. "A lot of work needs to be done in terms of actuarial assessment and cost benefit analysis, but there is scope for insurance to fill that gap as the knowledge base increases around cost."

**Q. WHAT IS THE KEY TO GROWING THE GROUP RISK MARKET?**

Despite the focus on rebroking highlighted in group risk industry figures, intermediaries believe that opportunities for growth do exist with many interested in focusing on employee education.

"The only way we will sell more risk business is if employees start demanding it," says Gamble. "Until the general public is educated about group life and group income protection they won't know it's there so they won't clamour for it."

She is anticipating a "more aggressive push on worksite marketing", similar to that adopted in the US.

Xafinity's Burt believes that technology could facilitate such a push.

"Technology does have a role to play in reaching out to employees," he says. "How do we get access to the end users? We rarely do so unless there is a claim involved. It can help to give them a lot more information than they get at the moment."

Carlos Correia of LCP believes that worksite marketing could prompt a greater uptake of benefits through flex.

"Insurers have typically been a bit resistant to voluntary benefits but if employers are looking for low financial commitment but want to give employees an opportunity to enjoy benefits then flex is an option," he explains.

John Heatley of PMI Health Group, believes that flex could do a lot more to live up to its name.

"We need to be looking at ways to be far more automated and offer more choice on a flex or non-flex basis," he says. "You can scale the benefit up and down but you can't change things like the deferred period. It would be quite interesting for an insurer to bring out a product like that."

Aviva's Bridger believes that intermediaries currently have "lots of reasons" to start having conversations with employers, from the removal of the default retirement age, which is already

prompting large corporates to consider moving from self-insurance to the Government's current review of sickness absence.

Meanwhile Correia believes that changes in pensions – including the shift from defined benefit to defined contribution schemes – present an opportunity for intermediaries.

"This has stimulated purchases of products because a change in the pension scheme necessitates a review of benefits," he reports. "However, the key change could be if we see more demand from employees themselves for things like IP."

"When you consider the number of companies that have taken out benefits in comparison to the number operating in the UK, the suggestion is that there is scope for new business," says Burt. "We need to educate employers that it is a relatively inexpensive benefit and to give them scenarios. For example, how would you feel if one of your employees died with a relatively young family? Or was seriously ill and off work for a significant period?"

According to Swss Re, group death benefits still make up 40% of all UK insured life cover and group income protection represents nearly 75% of insured benefits. Burt's comments and these statistics highlight the moral imperative to grow the market further.



# You ask **Steve**



Intermediaries remain at the heart of the group risk industry, advising, educating and selling to employers. We asked three key brokers to join us in putting their burning questions to **Steve Bridger**, head of group risk at Aviva UK Health.



## Q. "HAS AVIVA TAKEN ITS HEALTH AND WELLBEING PROPOSITION FORWARD?"

Karen Gamble, Heath Lambert Consulting

**Steve:** "We've already begun the journey as described in our broker forum in October last year. In other words we're doing what we said we'd do. At the time we said that we are broadening our health and wellbeing strategy for corporate

customers specifically around understanding the journey from health, pre-absence/presenteeism, short-term absence, long-term absence through to rehabilitation. We are able to do this due to our composite nature and by drawing upon our proven expertise from our key business areas.

"To help us drive our strategy forward, we've introduced a new health consultancy team headed by Janette Hiscock who has many years' experience of the corporate market. This new team includes individuals with wide ranging skills and experience

from across our health, group risk and occupational health business units.

"Over the past few months we've been talking to our colleagues across the Aviva group and working with a number of intermediaries to identify clients that are ready and understand the benefits of needs-led solutions and not just product offerings. Most importantly group risk and the size of that footprint allows us to have discussions with intermediaries and corporates that we already have relationships with.

"While we are still in the early stages results to date are extremely promising. Customers are already seeing a tangible return on investment both in financial and people outcomes."



**Q. "WHAT WILL THE CLAIMS MANAGEMENT AND REHABILITATION PROPOSITION LOOK LIKE IN TWO TO THREE YEARS' TIME?"**

John Heatley, PMI Health Group

**Steve:** "We're already using clinical insight to personalise our claims management and rehabilitation approach and will continue to do so. For example, early intervention is widely talked about in relation to group income protection but it isn't appropriate in all cases. At Aviva we work with customers to put the appropriate triggers in place so that we are notified early about the types of conditions that really benefit from early intervention. Typical examples are when an employee phones their line manager to say that they are off with a back injury or stress, or even more importantly before they go off work.

"The initial point of contact is so important to get right which is why we were the first insurer to introduce telephone assessment of claims. This significantly improves the customer experience for the employer, employee and line manager and means that we can have an open conversation to really understand the

issues, for example around the workplace, attitudes to risk, responsiveness to treatment etc. Using our clinicians and liaising with the individual's primary carer (e.g. GP, therapist), we can then complement and improve their existing treatment plan to help bring about an early return to work.

"At Aviva we also recognise that people respond differently to the same emotional and physical triggers and that a condition and the way its symptoms present themselves are unique to each person. We are already seeing strong evidence that understanding the individual's circumstances and needs are crucial to getting them back to work quickly and keeping them at work. For example while cognitive behavioural therapy is perhaps the most well-publicised therapy, there are a number of alternative talkative therapies that may be more relevant to the individual.

"Similarly, where a customer's claims experience or reasons for absence are heavily skewed towards back and neck issues or where control of the experience is needed, we can utilise our award winning Back-Up service to tailor personalised treatment plans to help speed an employees recovery and aid their return to work.

"Fundamentally the Aviva way is and will continue to be about helping people recover, get back to work and stay at work."



**Q. "WHAT IS AVIVA GOING TO DO TO GROW DEMAND FOR GROUP RISK AMONG EMPLOYEES? NOTHING HAS BEEN DONE TO COMMUNICATE TO THE MAN ON THE STREET WHY THEY NEED IT."**

Carlos Correia, Lane Clark & Peacock

**Steve:** "We believe that the employer has a bigger role to play in growing demand for group risk.

"By that we mean that fundamentally group income protection is still sold and not bought, and is

there to complement the employer's promise, and sick pay scheme, in providing financial benefits in the event of being unable to work through long-term sickness or injury. But let's not forget the access to services, support, and rehabilitation that more than outweigh the core financial support available.

"We are supporting the Department for Work and Pensions' sickness absence review and believe that this and a better awareness of the protection gap – in the same way that the savings gap has been well publicised and even moved towards compulsion from stakeholder to auto-enrolment – will be the best and clearest way of raising awareness of group risk benefits.

"We are also raising awareness through our marketing activity and membership of GRiD, which aims to raise the profile of the industry."

"Intermediaries getting back to consultancy and working with employers to show the value of group income protection – especially around cost of absence the impact to their business – should and can create new market growth."



**Q. "WILL THE APPOINTMENT OF TREVOR MATTHEWS CHANGE THE DIRECTION OF AVIVA IN THEIR APPROACH TO EMPLOYEE BENEFITS?"**

**WILL THEY REMAIN IN THE INTERMEDIARY MARKET OR PURSUE A DIRECT APPROACH?"**

Karen Gamble, Heath Lambert Consulting

**Steve:** "At Aviva UK Health we remain committed to the employee benefits market and continue to progress our corporate health and wellbeing strategy. As a composite insurer we believe that we're one of the best placed providers to help employers understand and address key issues for their business, particularly in relation to workplace

wellbeing and absence management. We will continue to work with our intermediary partners and corporate customers to service the needs of this important sector of the market."



**Q. WHAT IS AVIVA'S VIEW ON THE IMPACT OF THE FIT NOTE?**

*Health Insurance Magazine*

**Steve:** "Fundamentally we agree with the approach of the Fit Note, in that it's focused on what an individual can do, rather than what they can't as a result of sickness or injury.

**GPS ON THE FIT NOTE**

- **88%** agree that helping patients stay in or return to work is an important part of their role
- **81%** disagree that a patient has to be fully recovered before they would recommend a return to work
- **59%** feel confident in dealing with patient issues around a return to work
- **77%** feel obliged to give sickness certificates for reasons that are not strictly medical
- **53%** say the Fit Note has helped improve the advice they give to patients about their fitness for work
- **48%** say the Fit Note has increased the frequency with which they recommend a return to work as an aid to patient recovery
- **71%** say the Fit Note has helped their patients make a phased return to work
- **20%** say they are good services locally to which they can refer patients for advice about a return to work

*Source: Department for Work and Pensions survey of 1,405 GPs, 2011*



"Fit Notes have only been in use just over a year and it's still too early to show their true impact and understand the extent of their use.

"It's well publicised that GPs have concerns around the time it takes to complete the Fit Note and we expect to see improvements in the process such as the ability to submit the Fit Note online to the employer.

"Let's not forget that the whole purpose of a sick note and now the Fit Note is to let an employer know what capacity an employee has to work. So the engagement of employee and employer together is fundamental to the positive impact of Fit Notes.

"This creates opportunities for us as an occupational health and group risk provider to work with employers on notification of certain conditions and support them, and the GP, to get the individual back to work."



**Q. "WHAT CAN AVIVA AND OTHER GROUP RISK INSURERS DO TO HELP EMPLOYERS MONITOR ABSENCE?"**

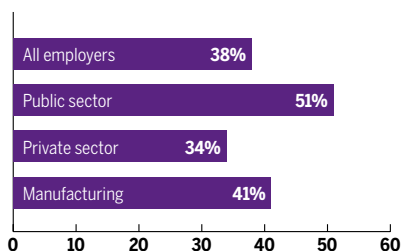
*Health Insurance Magazine*

**Steve:** "The importance of monitoring absence is clear. Employee health, presenteeism and absence all have an impact on the productivity and profitability of a business and managing it is the biggest return on investment that we can demonstrate to our customers.

"Interventions such as insurances and services are widely purchased to treat problems once they occur but employers need to recognise the benefits of prevention and the monitoring of absence. That is not to say that group income protection isn't important, but coupled with strong absence management both in process and reporting will really drive the value that employers are seeking.

"Aviva has developed a range of solutions to help employers identify the factors driving absence rates. We believe that there are two key stages to absence

**ORGANISATIONS WITH TARGETS TO REDUCE ABSENCE**



*Source: CBI survey of 223 employers with total of one million employees, 2011*

management. The first stage focuses on understanding the problem, or more importantly the size of the problem. This includes the true absence levels, what is driving it and what this means. The second stage answers the question "what can I do about it?"

"This consultancy includes conducting an analysis of existing absence data. Where this isn't available, we also offer an automated telephone and web-based service for recording, reporting and managing absence.

"Once the problem areas are fully understood then targeted solutions can be chosen and implemented. This should include initiatives that not only support the employee once they are sick but also address the root cause of the problem, help prevent issues arising in the first place and encourage employee wellness. The right selection of benefits could mean that over time, a significant difference in both short-term and long-term absence is experienced.

"This leads us back to the fact that the return on investment is fundamental to the employer. That is why we are working with our clients to demonstrate the benefits of investing in absence management. The advantages are obvious and include improved absence, return to work rates and better risk management which in turn can help improve claims experience and control future premiums."

# Healthcare and protection – a winning combination



**Steve Bridger**, head of group risk at Aviva UK Health, believes there has never been a better time to take an active approach to promoting health and wellbeing in the workplace.



Let's put this into context. When Aviva UK Health commissioned a Lightspeed survey of 500 employers in January last year, almost a quarter claimed that the economic climate had taken a lasting toll on employee stress levels and resulted in an inevitable rise in long-term absence rates.

Leap forward to March 2011 however, and our OnePoll survey of 1,000 employers shows that circumstances could be deteriorating. Half the businesses we spoke to said that long-term absence is still an issue.

Figures like those can tend to reflect mounting legislative pressures and the financial state of the nation. Easy to mince in the boardroom perhaps, but a little harder to address in a way that takes account of the potential for further economic instabilities or future directives from the corridors of power. Other statistics however, from those same surveys, shine a strong light on the role for intermediaries – who are able to demonstrate the tangible benefits of running health and protection programmes in the workplace.

## WEIGHING UP THE COSTS

Almost 35% of the employers we spoke to expressed concerns about how to balance their obligations to employees' – exercising a duty of care – while still running their commercial affairs effectively. Clearly there's a desire to find an acceptable equilibrium, between the cost of helping an employee cope with illness and dealing with the operational challenges that arise when a business suffers due to absenteeism or presenteeism. Employees who struggle into work despite feeling unwell may be congratulated for having a strong work ethic but in reality, if an employee is

### DID YOU KNOW

**79% OF PEOPLE WOULD EXPECT TO GO  
BACK TO WORK AFTER A DIAGNOSIS OF  
CANCER**

*Source: Macmillan Cancer Support*

genuinely unwell then coming into work could hinder their recovery, exacerbate the problem and spread illness among the wider workforce – which is not the desired outcome, under any circumstances.

Whether it's absenteeism or presenteeism that's to blame, the effects of poor health among employees can be as dramatic at both ends of the spectrum – from the family-run small business, right up to the large corporate entity. People are a business's most valuable resource – and it's vital that employers begin to recognise this.

The Government's independent review on sickness absence in the workplace should contribute positively to the media stream surrounding this important issues. We're looking forward to seeing whether or not a greater focus on the awareness of income protection plans for employers will figure in the recommendations.

In the meantime however, when illness or injury strikes the impact on productivity can be instantaneous

and although employers sometimes take management time, reputation and morale into consideration, the final cost of absenteeism may not be realised for a very long time. Worse still, under current sick pay arrangements, there's very little incentive for employers to help staff return to work and – although statutory sick pay provides financial support, and we're eager to see that results of that review – currently, there's no government-led emotional or physical framework in place to motivate and encourage the individuals concerned.

Happily, the effects of poor health in the workplace can be minimised with a comprehensive healthcare and protection benefits package: one that offers practical and emotional support as well as financial aid, and one that promotes awareness of health issues among employees pro-actively, and uses early intervention techniques to help individuals return to work – at the right time.

## COMMONSENSE APPROACH

So why are healthcare and protection products perceived to be such a 'hard sell' by some intermediaries? It could be due to the fact that relatively few large businesses – and even fewer small businesses – have co-ordinated absence management strategies in place to deliver accurate and timely information about the true cost of absenteeism in the workplace. And when faced with an illustration showing the price of a preventative or analytic care product – such as a health awareness initiative or occupational health services for example – it can be difficult to make the connection between an up-front cost to a business and (let's be honest), an incalculable return on investment. The often-quoted benefits, 'these products help you attract and retain high quality employees' and 'these benefits could help you improve your company's public profile' are hard for anyone to quantify on a balance sheet.

But the tangible benefits are there.

Quite simply, prevention and early intervention are more cost-effective methods of managing employee

health than post-event management. Pro-active workplace wellness initiatives have been found to reduce absenteeism by up to 20% in some cases and can increase employee job satisfaction and reduce staff turnover by between 10% and 25%.<sup>1</sup> Evidence also suggests that wellness programme costs quickly translate to financial benefits through cost savings or additional revenue generation.<sup>2</sup>

The good news is that nearly half the employers we spoke to in March felt they were getting their employees back to work promptly. Perhaps not surprisingly, the other half admitted that they were not comfortable with their absence management strategy...

### DID YOU KNOW

**JUST 11% OF THE UK LABOUR FORCE IS COVERED BY AN INCOME PROTECTION POLICY, COMPARED TO 27% IN THE UNITED STATES**

*Source: Demos*

### THE PERSONAL, PERSONNEL FACTOR

Another issue for employers can be how to deal with illness or injury on a very personal level. It's safe to say that attitudes have taken a steer towards greater respect for individuals' and employees' rights – and that can bring its own challenges. Many companies are dealing with highly emotive conditions such as cancer, an illness that had affected almost 20% of the 1,000 businesses we spoke to in March. Nearly 20% of companies employed staff who had been dealing with heart problems, and 30% of the employers we spoke to had employees who were coping with mental health issues. Those statistics are a depressing insight to the state of our nation's health in general – and the net effect is an ever-increasing pressure for employers to be pre-emptively armed with illness management strategies.

Still, nearly one in five admitted that – right now – they would find it hard to manage the needs of business and their duty of care to the employee when dealing with someone with a potentially life threatening condition. And almost 15% said they would be anxious about finding a way to 'deal with the employee' without upsetting them.

### TIE IT ALL TOGETHER

We are confident that intermediaries have a pivotal role to play in helping employers prepare for just those kinds of situation. The truth is, it's never easy to deal with ill health. Sadly, it's even harder to cope with the consequences of loss of life or critical illness. But that's where an experienced provider can come into their own, and intermediaries should take heart from having such basic tenets against which to promote the value of having professional support in place.

A good provider can take the strain of a business's healthcare management issues: putting preventative healthcare programmes into place, delivering early intervention measures using medical evidence-based guidelines, and offering services that allow the employer to focus on the business, and their employees to focus on maintaining their wellbeing – returning to health before they return to work.

Ideally, a benefits package like this should include a wide range of initiatives that not only support the employee when they're sick, but also help address the root causes of the problem, helping to prevent issues arising in the first place. That could be with products like our Absence Manager, for example: monitoring, facilitating, reviewing, analysing, proposing strategies for improved management processes and, ultimately, resulting in a reduction of absenteeism costs for the business. Or with Back-Up – the service we provide that helps employees deal with musculoskeletal issues, without the need to see a GP. By using medical evidence-based guidelines, early intervention can lead

**DID YOU KNOW**

**42% OF PEOPLE WOULD FEEL COMFORTABLE TALKING TO AN EMPLOYER ABOUT THEIR MENTAL HEALTH, COMPARED TO 70% WHO WOULD FEEL COMFORTABLE TALKING TO FRIENDS AND FAMILY**

**Source: Attitudes to Mental Health Survey, Department of Health**

to a more rapid recovery and, working with both the employer and the employee, potentially reduce the risk of a recurring injury in the workplace in the first place.

A comprehensive group risk strategy can bring key components like those to the boardroom table through our group income protection, group life and group critical illness products. We're always happy to provide intermediaries with pertinent case studies showing how easy a roll-out can be, and what the benefits could be for the company concerned. Completing the portfolio with a private medical insurance policy is simply a logical step.

But in addition to initiatives like those, the first steps could be something as simple as providing support for cutting back on alcohol and cigarettes or guidance on stress management, doing exercise or healthy eating – all of which promote a culture that encourages employee wellness, and rewards individuals for taking action. Resources like those can then be complemented with employer, or employee-funded health screening such as blood pressure, pulse, BMI, blood glucose and cholesterol checks to help identify any health risks early. These are simple steps, but all of them can help identify and then minimise the potential costs associated with absenteeism.

**NEEDS-LED SOLUTIONS**

On the one hand, it may still seem an inappropriate time to expect that employers should invest more time

and money in staff wellbeing. But those intermediaries who do decide to promote healthcare and protection benefits could help those employers make significant positive in-roads to minimising the costs associated with employee illness and injury. With the right benefits in place, staff turnover, absenteeism, accidents and stress levels could fall just as quickly as morale, loyalty and productivity rise.

It is fair to say that success depends in part on intermediaries becoming intimate with an organisation's requirements in some detail, then using those insights to help a provider develop an absence management strategy that embraces both the business's culture and its objectives. And the larger the business, the more important those needs-led solutions become.

For us, one of the implied consequences of developing truly flexible products is that we dedicate a wide range of support services to helping our intermediaries – listening to their feedback and taking their insights on board; helping them promote the benefits of health and wellbeing effectively and consistently to their clients; and ensuring that their input and feedback has a direct influence on the healthcare and protection propositions we can then put forward.

The facts speak for themselves: choosing the right benefits package – combining healthcare and protection to deliver awareness initiatives and early intervention techniques – can make a significant difference in addressing both short-term and long-term absence. From the work we are doing, we can evidence that early intervention with the right treatment at the right time does make a significant difference to absence. And being able to communicate this return on investment is a fundamental strength for any intermediary who wants to grow their business.

**REFERENCES**

- <sup>1</sup> NICE public health guidance 13 – Workplace Business Case
- <sup>2</sup> PricewaterhouseCoopers LLP – Building the case for wellness, February 2008





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