Health Insurance & Protection DAILY

BOARDROOM BRIEFING

CASH PLANS

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A sector in the spotlight

Challenges – and opportunities – in the year ahead

The corporate health insurance and protection industry has been through a difficult few years as employers large and small grapple with the demands of an ever-changing employee benefits landscape.

Pressure on private medical insurance (PMI) premiums and the introduction of new legislation around pensions provision are just two of the headaches that businesses across the country have had to address.

Add to that the conundrum of an aging workforce in addition to the omnipresent war for talent and it's hard not feel some sympathy for HR and benefits managers – and of course for intermediaries who advise them on the health and wellbeing needs of their workforce.

Yet against this, the healthcare cash plan sector has proved once again that it is committed to supporting businesses of all sizes and across all industries.

The product has evolved to become a truly holistic health and wellbeing proposition – and has indeed moved into other areas in an effort to appeal to a broader range of worker. Of course, the bedrock benefits of physiotherapy and dental and optical care remain, while other occupational health features mean that cash plans can help employers to address an even broader range of issues.

But the market has not been, of course, without its challenges. Pressure on claims has meant that the issues of affordability and sustainability – perennial bugbears of the world of PMI – are rising up the cash plans agenda.

The question of whether the product should be an employee or employer benefit also remains up in the air. But there is little doubt that intermediaries – the main channel which has helped the cash plan market to flourish – remain interested in what the product can do for their clients.

Our annual **Boardroom Briefing** on cash plans once again brought together leading experts in the field to discuss some of the key issues that have been at the forefront of the market in recent months.

They also discussed what challenges – and opportunities – might lie ahead in the year to come.

We've put together a snapshot report of their views here. Our report raises some important points for debate and I look forward to following up some of the main subjects on healthinsurancedaily.com in the months to come – and hearing your views too.

As ever, please email your thoughts, views and feedback to **healthinsurance@informa.com**

DAVID SAWERS | EDITOR | HEALTH INSURANCE DAILY

The Panellists (From left to right): **David Sawers** (Health Insurance Daily, event Chairman), **Peter McAndrew** (Health Shield), **Marcia Reid** (Stackhouse Poland), **David Willetts** (Health Shield), **Lisa Stern** (Virtu Employee Benefits), **Carol Porter** (The Health Insurance Group), **Sarah Tanswell** (Barnett Waddingham), **Darren Elcock** (LEBC Corporate Healthcare Solutions), **Daren Cornelius** (Chase Templeton)

Affordability and Sustainability

'Affordability' and 'sustainability' are words that have long been used in association with cash plans, but their relevance is even more pertinent today

ON THE AGENDA:

- **Trends in Claims**
- **Pricing**
- **Benefit Range**

The affordability of cash plans is, of course, one of the enduring appeals of the proposition.

But there was one issue that was top of the agenda for intermediaries and providers at this Boardroom Briefing: the industry needs to be more attuned to the potential impact of the claiming behaviour of scheme members who are becoming, in many cases, more sophisticated in their approach, taking valid advantage of the product's ever-expanding range of benefits.

Marcia Reid of specialist intermediary Stackhouse Poland said in her experience the corporate member is becoming "even more intelligent" about claiming.

While participants at the briefing, including Reid, were all keen to stress the importance of members making valid claims on a consistent basis, she suggested it would be naïve to suggest this would not have a negative impact on claims experience.

Reid said: "I'm sure that claims histories are going up as people are really making use of their cash plans and we're seeing that in the price increases of independent and voluntary upgrades. People are much more money-conscious since they've struggled out of the recession. People have still got the memory of financial pain and so they're much more likely to claim."

It was a sentiment that chimed with Peter McAndrew of cash plan provider Health Shield who said his organisation is seeing "almost" three claims a year per member now.

He said: "That's the challenge with cash plans. They've always had it but I think that's becoming a real challenge now. It's how you control claims. A cash plan product is there for people to claim. That's the whole basis of it – it's there when you need to claim from it."

Panellists, though, expressed some concern as to the seemingly ever-broadening range of benefits available as part of a cash plan. After all, the product has evolved far beyond its core benefits of dental and optical refunds to incorporate everything from retail vouchers to alternative therapies like reiki and hopi ear wax candles.

While this range of benefits has undoubted appeal – both in voluntary and employer-paid arrangements – some panellists suggested that businesses

> "I would like to see the optical and dental claims come down on cash plans and be spent in other areas"
>
> **Darren Elcock,** LEBC Corporate Healthcare Solutions

need to ensure the schemes they set up are of relevance to workers in each specific business.

Reid said: "I wonder whether we almost need to claw back a bit. Wearable technology, discounted gym benefits, retail vouchers – do cash plans need to do that? I don't know."

And using frames for designer spectacles as an example, McAndrew said: "We could go back to saying 'you can't have frames but we'll pay for lenses' and that is a way of controlling claims. But that would probably take you out the market because all of our competitors could just say 'well you get your frames'. When you are looking at innovation and when you are looking at pricing with cash plans, you've also got to look at your competition in the market all the time. We could come up with a brilliant cash plan, it would probably cost about £10 and you could have your pot, you could have all that. But you just wouldn't be able to sell it because the pricing would be too high. And if the competitors aren't going to move along those lines then you're putting yourself out on a limb and before you know it, you can't sell anything."

Darren Elcock of LEBC Corporate Healthcare Solutions added: "Ultimately I would like to see health and wellbeing packages that that includes group life, PMI, cash plan, or elements of those benefits that are completely designed around what the client wants. Because I think at the moment you're working in silos, you're doing PMI, you're doing the cash plan, you're doing the group risk, the income protection, the employee assistance programme. Is there a need for one product that does it all if clients want it? We're probably a long way away from that."

Sarah Tanswell of employee benefits consultancy Barnett Waddingham agreed that employers need to focus not just on the breadth of proposition that a cash plan can offer but perhaps more so on the specific demands and needs of its staff.

She said: "It's a sustainable benefit providing that you speak to the employees but as an industry we need to get a lot better of actually saying to a client, not 'what do you think', not 'what does HR think' but 'what do your employees want? You're saying £250 for dental – but says who? Do your employees want that? Have you done the analysis?'"

> "It's a sustainable benefit providing that you speak to the employees"
>
> **Sarah Tanswell,** Barnett Waddingham

Elcock added: "I would like to see the optical and dental claims come down on cash plans and be spent in other areas."

In response, McAndrew asked: "So how do we move cash plans forward? Do we strip the cash plan right back so it's not about what else can we add on, which we've all been doing over the last few years? Strip it right back and have then an off-the-shelf product but it will be a cash plan; it will be the normal cash plan benefits, which will bring the core price down.

"So you're not completely changing everything, you're just bolting them on. And I can see on the pricing matrix that would work. I think that's the way Health Shield will go over the next few years."

That was a message which was well received by intermediary panellists at the event. Stackhouse Poland's Reid said: "That would be absolutely brilliant because then you've got the clients that want the basic and it's very easy for them to cotton on and to understand it and then if you can literally sit there with your sales toolbox."

McAndrew said that however cash plans are to evolve over the coming years, it is of course essential that the product remains sustainable in terms of pricing.

He said: "Obviously as an insurer we're always thinking about different pricing levels. We've had to move our voluntary upgrades and price quite regularly because claims there are going higher but the actual company-paid claims aren't that bad. Insurers have tried to have a company-paid product and play with the voluntary top-up pricing and what they should have done with hindsight was put that in at the right price to start with.

"So the company-paid benefits here and then if you want the voluntary side, you pay the going rate for it, which is sustainable. That's what cash plans are going to have to do over the next two or three years, is to get that pricing model right. We've got to be able to control the cost to the employer for the employer pay part but we've also got to protect ourselves. There is room for the voluntary side, it's just that it's got to be priced correctly and then it doesn't drive the cost up for the employer." HI

> "A cash plan product is there for people to claim. That's the whole basis of it – it's there when you need to claim from it"
>
> **Peter McAndrew,** Health Shield

Broker Attitudes

There is little doubt that intermediaries have played a vital role in spreading the word about cash plans in recent years. That is a trend that looks set to continue – but only with the right levels of commitment and engagement from all stakeholders

ON THE AGENDA:

- **Broker Appetite**
- **Intermediary Opportunity**
- **Communication and Engagement**

Intermediaries have proved critical to the success of the cash plan market over recent years and that trend looks set to continue as businesses large and small look for specialist advice to help them make the most of the various propositions on the market.

David Willetts of cash plan provider Health Shield said his organisation is seeing continued increase from brokers both accustomed to selling the product and those who are new to the sector.

Willetts said: "We're getting a lot of business now from brokers we've never had business from before and who have never done cash plans. We're getting a lot more brokers coming to us now and opening agencies because if they don't sell a cash plan, another broker will do it. If you don't do it and another broker goes in and does a review on that client and says 'cash plans', the client is going to say 'well, my broker didn't tell me that'."

There are many reasons that brokers should look to cash plans to support their client and bolster their own business, panellists said.

According to Health Shield's Peter McAndrew, the product has a 'stickiness' that means that once scheme members start using the benefits on offer, they are reluctant to lose them.

McAndrew said: "Cash plans are harder to move because the touch point is three times a year for each employee. The employees get used to using them, they get used to the terms, the benefits."

And Marcia Reid of Stackhouse Poland, the intermediary, said that by implementing a cash plan scheme, brokers with the right skillsets can then look to advise the client on other product areas too.

Reid said: "It's also a good opportunity for intermediaries because if you are just advising somebody on healthcare but you want to talk to them about group risk and you talk about cash plans, it gives you an opportunity to touch the group risk element as well. So it's quite a good sales tool for intermediaries as well."

Daren Cornelius of national intermediary Chase Templeton added: "Any client will want bundling of benefits if they can because it's more convenient for them. It's more convenient for them to have a number of employee benefits with one intermediary because they can have

> "Cash plans help when you're doing a consultative piece with the employer because then you can talk about all the different benefits and dovetail them"
>
> **Carol Porter,** The Health Insurance Group

an intermediary day and just go through all those benefits and then it's done an dusted."

However, Reid also backed the caution urged by some panellists towards brokers who think they can use cash plans as a straightforward entry point for them to make some easy money.

Carol Porter of The Health Insurance Group said: "Cash plans help when you're doing a consultative piece with the employer because then you can talk about all the different benefits and dovetail them, so there is no overlap and so on. For the lazy intermediary that just wants to sell a cash plan and get a quick bit of commission, that's going to be quite tricky then because they've actually got to do some work.

"You have to make sure you don't have duplication in benefits. So, for example, when the cash plans start to include and employee assistance programme or some of the occupational health and wellbeing products, it could be that clients have got that elsewhere."

Even comparing the different cash plans on offer across the market – without even considering how they interact with a client's broader benefit structure – can be complex, Porter added.

She said: "It's quite tricky to do a cash plan comparison because of all the variances of percentage pay-outs and so on."

Reid added: "That's a really valid point. If you're selling cash plan to a client, you're duty bound to give them a number of choices but to try and compare them is very difficult."

Participants at the Boardroom Briefing also agreed that challenges remain in terms of getting communication right between employer, staff, broker and provider – something that is critical to the long-term success of a cash plan scheme. While technology, for example, can help providers and employers to get the message about the benefits of cash plans across to workers, the process should be handled with care, intermediaries said.

Lisa Stern of specialist intermediary Virtu Employee Benefits said that ensuring that all the different stakeholders – provider, intermediary, employer and employees – are involved in a consistent dialogue is a challenge.

> "Any client will want bundling of benefits if they can because it's more convenient for them"
>
> **Daren Cornelius,** Chase Templeton

She said: "Having to bring everyone in and say 'we need to organise the seminars' – actually that's been a bit of a sticking point for me. Sometimes clients say 'do you know what, it's a great concept, we're definitely on board but let's put it back, we don't have the time to manage that internally'."

Sarah Tanswell of employee benefits consultancy Barnett Waddingham, meanwhile, said that "one of the potential negatives" around cash plans is the amount of communication and education that is needed to ensure a good level of engagement.

She said: "It is a benefit that deserves a really good engagement level because absolutely everybody can use it. But you have to put so much education behind it and a lot of time and a lot of money before people understand exactly what they're doing."

While technology – in the shape of flexible benefits platforms – can help providers and employers to get the message about the benefits of cash plans across to workers, it is no silver bullet.

Tanswell said: "There almost seems to be a belief among platform providers that they're the solution to all your client's health and wellbeing benefit problems. It's not about just sticking in a platform, slapping benefits on it and saying 'everything will be fine'. Absolutely not. You have to put the benefits first, you need to find out what the employees actually need in terms of their health and wellbeing and then you use the platform as an engagement and education tool. It should not just be touched for five minutes, once a year in a worker's lunch break, just before Christmas. It needs to be more analytical and more of an educational pitch. You need to put the legwork into the benefits first of all and market them."

Health Shield's McAndrew said that once in place, a cash plan within a flexible benefits scheme can reap dividends in terms of employee engagement with that scheme.

He said: "It attracts them to the whole benefit structure. It's quite an inexpensive way of getting employees to engage with the whole benefit structure and the benefits platform." HI

> "We're getting a lot more brokers coming to us now and opening agencies because if they don't sell a cash plan, another broker will do it"
>
> **David Willetts,** Health Shield

Employer Perspectives

Cash plans hold great appeal for employer and employee alike – but who is the benefit actually for at the end of the day?

ON THE AGENDA:

- **Employer or Employee Benefit?**
- **The Benefits Jigsaw**
- **Support for Employers**

The attitude of employers towards cash plans – and the ultimate purpose of the product – was up for discussion during this year's Boardroom Briefing.

The popularity of the product remains undeniable – and its appeal is broadening to encompass industries that have not traditionally been associated with it in the past.

David Willetts of cash plan provider Health Shield said: "You can't say what type of industry will have a cash plan, it's for every industry. If you go back five or ten years, you'd mainly be looking at blue collar workers. But now, whether it's via brokers or the HR themselves, there's a lot more awareness of cash plans and how they work.

"We now have some very big companies that didn't have cash plans before. But there are always some companies that don't have cash plans, still."

Panellists also discussed whether cash plans should be seen as an employee or an employer benefit, especially in light of whether or not the product is implemented on a voluntary or a company-paid basis.

Marcia Reid of Stackhouse Poland, the intermediary, asked: "Should we start considering cash plans as an employee benefit and not add the voluntary element? I wonder whether that will make it more sustainable. Voluntary PMI schemes are obviously going to be very high risk and voluntary cash plan upgrades and dependents could go the same way."

Nonetheless, Health Shield's Peter McAndrew pointed out that his organisation is witnessing a spike in interest in voluntary cash plans from employers looking to recruit and retain staff.

He said: "The retail market has changed on voluntary products. There are not many retailers paying for cash plans for all of their staff, but we've noticed a big increase in main retailers taking cash plans now on the voluntary side of things – and they're giving us good access to staff as well to promote it."

As the battle for talent intensifies, so does the appeal of cash plans, McAndrew added.

He said: "It is difficult now for employers to get good quality staff and when

> "We've noticed a big increase in main retailers taking cash plans now on the voluntary side of things – and they're giving us good access to staff as well to promote it"
>
> **Peter McAndrew,** Health Shield

they've got them, to keep them. So people are looking at benefits packages now and asking how they can make it more attractive for somebody, not just to recruit them but then to keep them as well. I know cash plans aren't the be all and end all but it is another piece of that jigsaw isn't it?"

The benefits 'jigsaw' has, of course, become more complex in recent years thanks to the introduction of auto-enrolment legislation, which has compelled some companies across the country to introduce some kind of pension provision for their staff. Panellists, on the whole, thought the move has proved favourable for the cash plan market.

Health Shield's McAndrew said: "Auto-enrolment has been a positive to us overall. You probably wouldn't have said that about four or five years ago."

And Stackhouse Poland's Reid said: "Auto-enrolment makes people look at their benefits package doesn't it? It shines a light on it."

The voluntary cash plan market could benefit from auto-enrolment, according to some panellists.

Carol Porter of specialist intermediary The Health Insurance Group said: "It could be that companies are obviously spending money on pensions and they're looking to be a little bit careful on the other benefit spend. So putting in a voluntary scheme with some added value could be perceived to be a benefit for the employees."

Cash plans, of course, are not just an employee benefit, but an employer benefit too, panellists agreed. In addition to the positive impact the product can have on recruitment and retention, a cash plan scheme can have a very welcome effect on the health and wellbeing of the workforce in question. Improvements in absence and productivity rates – and potential savings in terms of private medical insurance claims – are commonplace.

Stackhouse Poland's Reid said: "In the past, people did think of cash plans as being 'blue collar' the market has gradually learnt that cash plans should be a corporate benefit and now they have evolved into a health and wellbeing tool."

> "We're talking about something completely different to PMI here, we're talking about retaining your employee's health"
>
> **Daren Cornelius,** Chase Templeton

Daren Cornelius of Chase Templeton, the national adviser, said: "Once you start having a conversation with clients about PMI it becomes quickly about 'it's there for when your employee is ill'. But we're talking about something completely different here, we're talking about retaining your employee's health."

As well as the 'traditional' cash plan benefits of dental, optical and physiotherapy, cash plans can offer access to a spectrum of other services that can boost worker health and wellbeing.

Sarah Tanswell of Barnett Waddingham, the employee benefits consultancy, said that she encourages her clients to think "slightly differently" about PMI.

She said: "A lot of the time we think that cash plans should be at the front end of that process. PMI really should be used for employees and dependents who have serious conditions, especially on the employee front where they have got conditions that are preventing them from coming back to work. But a lot of the time, especially for things like musculoskeletal conditions, it's been used for cases that actually aren't affecting their work whatsoever. A lot of the time a cash plan can actually pick things up so they don't have to go through the PMI treatment path, they don't need to take time off to go and see a GP, they can just have their physiotherapy, get the refund and continue as normal. We're also promoting the fact that it's now less of a benefit for people who are ill and more of an all-round benefit, almost like a lifestyle benefit."

And Stackhouse Poland's Reid said: "We've seen more clients that have PMI adding a cash plan as another benefit because they want to have some sort of wellness approach and they're a bit intimidated by things like wellness days and they don't want to invest in occupational health services but they want to give their staff a little bit of something extra."

McAndrew added: "Employers provide cash plans for their staff and they all understand that employees go and have their teeth done and go and have their eyes tested and so on. So what's in these products for the employer? We've got Business Care, we've got Active Care and occupational helplines which are bundled in. Because SMEs do struggle with the HR, the occupational health side of things, and that can be added in quite cost effectively." HI

> "Auto-enrolment makes people look at their benefits package doesn't it? It shines a light on it"
>
> **Marcia Reid,** Stackhouse Poland

The Road Ahead

Challenges and Opportunities on the Horizon

ON THE AGENDA:

- **Absorbing IPT?**
- **Pressure on Reserves**
- **Prepared for Solvency II?**
- **Market Structure**

Britain's cash plan market has enjoyed a buoyant few years as employers look to capitalise on the popularity of the product among workers while also witnessing the positive impact it can have on absence rates and productivity.

But the sector is braced for a double whammy which could put pressure on providers' reserves and profitability.

The onset on Solvency II and a hefty increase in the rate of insurance premium tax (IPT) are issues that providers are working to come to terms with.

News last year that IPT rose in November from 6% to 9.5% was greeted with dismay by providers and intermediaries alike as fears emerged that the increase would need to be shouldered by already cash-strapped employers.

Since then – and since this Boardroom Briefing was held – the Chancellor has indicated that it is to rise by a further 0.5% to 10% later this year.

And it is clear that only some providers are prepared to absorb the increase in order to avoid having to pass on the increased costs to clients.

While Health Shield and Medicash, for example, have stated that they will absorb IPT increases in the short-term, that stance is by no means universal.

Health Shield's Peter McAndrew said the decision to absorb the increase was "difficult" and one that the provider had "given a lot of thought to".

He said: "It was a difficult decision but we are a friendly society. We are all about looking after our members. If you look at conduct risk, we sit on quite healthy reserves, so it's one way of giving some of those reserves back to our members for a year. I'm not saying it doesn't help us as well, it's not a bad marketing tool. But it wasn't taken lightly, it's a big chunk of money to us that over a year."

The decision to absorb the increase was one which was welcomed by intermediaries at the Boardroom Briefing.

Carol Porter of The Health Insurance Group said: "Cash plan providers that have absorbed the IPT increase should be applauded, especially compared to the way the private medical insurance [PMI] providers haven't done it. On the PMI side there's higher premiums, so

"Cash plan providers that have absorbed the IPT increase should be applauded, especially compared to the way the private medical insurance providers haven't done it"

Carol Porter, The Health Insurance Group

the increase in IPT has a more major impact. So I'm expecting to see more cash plans coming to the fore."

Porter acknowledged, though, that the mutual status of the majority of cash plan providers means they do not face the same pressures as privately-owned companies in the PMI market.

She said: "It is commendable. Although you may have fairly deep pockets and there is not-for-profit type situation, you obviously don't want to make losses either. Maybe some of the PMI providers with shareholders aren't in a position to do that."

Solvency II, meanwhile, the new set of rules which govern how insurers are funded and governed across the European Union, also kicks in this year, requiring providers to demonstrate to regulators that they have sufficient levels of capital to be confident that they could cope with the worst expected losses over a year.

Participants at the briefing heard Health Shield's McAndrew outline why he believes that some cash plan providers are not well enough prepared for the new regime – and how some in the sector could find themselves the subject of merger & acquisition activity as they struggle to cope with the new burden.

Health Shield, McAndrew said, has taken a number of measures to ensure it is prepared for Solvency II, including hiring specialist in-house expertise and setting up a number of risk committees, as well as setting aside millions in additional reserves to cover its Solvency II obligations.

He said: "If you get everything right and if you put some resource into that to start with, if you improve the business as a whole, then that should reflect in higher sales and it should move you up the market. The higher sales should pay for the costs that you invested in the first place."

But he warned: "I'm not too sure that a lot of insurers have approached Solvency II as they should have and I think you might see, in the next two or three years, one or two starting to creak and crack in the market."

Those pressures could – at the smaller end of the market at least – lead to mergers and acquisitions, he said.

"I'm not too sure that a lot of insurers have approached Solvency II as they should have"

Peter McAndrew, Health Shield

McAndrew said: "Because of the mutual status of cash plan providers, it's not always easy to purchase these companies. It's very difficult to get somebody to buy a friendly society; it's a very difficult purchase, it's not an easy job. I can't see there is room for mergers at the top end but at the lower end you would think there could be some acquisitions."

IN CONCLUSION...

David Sawers
Editor, Health Insurance Daily

The mood among panellists at Health Insurance Daily's latest Boardroom Briefing on cash plans indicated that prospects for the sector are bright – but the experts were in no doubt that challenges are on the horizon too.

There is little doubt that while claims costs are putting the squeeze on providers' margins and employers' budgets, there are affordable and sustainable solutions that intermediaries can turn to in order to support their clients in the years to come.

There is no doubt too that cash plans are appealing to an increasing number of brokers across the country, although it is apparent that it is those who take a more consultancy-based approach to advice who will reap the rewards.

Also not in doubt is the way that the product has evolved from its core bedrock of cash, optical and physiotherapy benefits to appeal to a broader range of employers and employees alike.

How the sector as a whole responds to challenges including increases to IPT and the onset of Solvency II is perhaps less clear.

Only time will tell, of course, how the future will unfold. But for now it is clear that there are intermediaries and providers alive to the challenges and opportunities ahead. And for them, the future is undeniably bright.

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