

Subject: Income Protection Insurance – the need for greater penetration

Presenters	APPG	Others
<p>Helen White, Assistant Director, Head of Protection, Association of British Insurers</p> <p>Julie Higman, Income Protection Manager, Aviva</p> <p>Andrew Potterton, Head of Product Development, Unum UK</p> <p>Nick Homer, Group Protection Manager, Zurich</p>	<p>Jonathan Evans MP</p> <p>Heather Wheeler MP</p> <p>Lord Hunt</p>	<p>David Morey & Paul Clarke (PwC)</p> <p>Others – approximately 10 interested parties, representatives of the industry and trade press</p>

1. Background

Each year one million workers suddenly find themselves unable to work due to serious illness or injury. 10.8 million households – more than 60 per cent of working families - would see their income fall by more than one third if the main earner had to stop work due to ill health, and they have no insurance to give them a financial safety net if this happens. 40 per cent of working families would see their income fall by more than half without insurance to provide a safety net. Despite these facts, millions of UK households relying on income from employment have not put in place an adequate safety net.

2. Presentations (key points):

i) Helen White (ABI)

A copy of the ABI slide pack is attached for reference.

- Helen introduced the ABI paper “*Welfare Reform for the 21st century – the role of income protection insurance*” which sets out how income protection (IP) can play a role in a new welfare framework, addressing the impact of employee ill health on productivity, household income and the economy
- Each year 1 million workers are unable to work due to serious illness or injury
- Some 250k people leave employment each year due to ill health; around 1% of the workforce; 60% are the main household earner
- There is often limited state support for people impacted by ill health
- Some 11% of working population has IP; the insurance industry currently pays some £456m (2013) in IP claims each year
- The ABI research work shows that 10.8m households would see their income fall by over 1/3rd if main earner had to stop work due to ill health; of these, 6.6m would see income fall by over a 1/2 absent any IP to act as a safety net
- The welfare system is complicated as to benefits available, and households are generally not clear as regards the extent to which the state provision only covers poverty rather than income replacement. This lack of clarity discourages personal responsibility
- The research also shows that it is unrealistic for the vast majority of households to rely on savings as a safety net against loss of employment income
- Only 1 in 5 people off work for six months return to the workplace; early intervention is vital to help those on sick leave return to work

- Key measures needed include:
 - Greater use of income replacement as a safety net
 - Greater access to rehabilitation services (offered by IP insurers) to get more people back to work more quickly and minimise long term health and disability problems
 - Improve awareness and understanding of health related income risks, as well as the interaction between state and private income replacement
- Increased IP penetration will also benefit the Exchequer as well as reduce pressure on the NHS.

ii) Julie Higman (Aviva)

A copy of the Aviva slide pack is attached for reference.

- Aviva research showed that across a population of 300 IP applications, only 47% of applicants had any sick pay arrangements in place
- There is a 1 in 5 chance that an employee will need to claim on an IP policy over a working life
- The average person in the UK is only one payday away from financial hardship
- Aviva is keen to see IP discussions with all mortgage sales, as well as greater use of IP by rental tenants
- Julie explained that IP is much more than a policy providing an income replacement; it also allows a focus on recovery and return to work. Insurers can start to support those covered even before the claim payment benefits commence; they can work with the policyholder's GP to ensure the best treatment is provided quickly, that there is prompt access to needed equipment. There are even examples of where insurers have supported policyholders with retraining for a different profession
- Julie talked about the industry initiative *Seven Families* where the industry is sponsoring and funding a number (currently four) families, who did not have IP, as part of an awareness campaign.

iii) Andrew Potterton (Unum)

- IP penetration has been consistently at around 10% over the last 10 years. Unum concluded that workplace provision (Group policies for employees) is the best solution to wider take up
- Employers are keen to better manage sickness absence cost and improve productivity through enhanced engagement with their staff. Insurers can support these objectives through provision of expert opinions regarding incapacity.
- Increasingly employers recognise the need to be an “employer of choice” and IP is recognised as a key benefit in the employee remuneration package. Employer focus on staff wellbeing means attention to workforce resilience. Insurers can help employees respond to work relationship issues which themselves can contribute to time off work
- Smaller employers often don't have the HR skills and capabilities of larger organisations and can benefit from insurers' employee assistance programmes at no additional cost (e.g. therapies, counselling, childcare sourcing etc)
- The aim is to support employees and their line managers as soon as practical; line manager services include training on common absence issues and absence management advice helplines
- Insurers are now providing more of an “expert service” than just insurance to pay income replacement claims.

iv) Nick Homer (Zurich)

A copy of the Zurich slide pack is attached for reference.

- Nick talked through the attached slide pack “*Group Income Protection – Economic Benefits*”. Key points included:
- Benefits for taxpayers from both lower welfare costs and higher tax revenues (income tax, employer and employee NI paid on IP payments) – estimated gains circa £185m p.a.
- Benefits for individuals are circa £190m p.a. in income replacement
- If UK penetration increased to levels experienced in the US (approx. 30% penetration), taxpayer savings would increase to circa £725m p.a., and replacement income for individuals would increase to circa £820m
- Group IP supports other Government objectives including:
 - Helps to return people to their jobs (not just to work)
 - Supports positive workplace culture, and helps employers fulfil duty of care responsibilities
 - Helps mitigate the financial impact of employee absence, including saving management time
 - Provides access to additional rehabilitation services
 - Provides cover to some employees who would otherwise not be able to obtain or afford such cover due to their medical health.

3. Q & A

A number of additional points were discussed:

- Current IP penetration is circa 11%; 2/3rd of this is employer Group policies and 1/3rd is individual policies. The employer model offers the bigger opportunity to increase insurance covers across the working population
- The need to promote income protection as being different to PPI where the mis-selling scandal has had widespread media coverage; the Chairman questioned the name ‘protection’, suggesting that it had toxic connotations and was a barrier to greater uptake of the product
- IP rehabilitation not only gets people back to work more quickly, it also decreases the overall cash cost of claims payments over an otherwise longer period
- Total annual market premium c£600m and claims benefit payments c£350m; however these do not represent the claims ratio because of the long term nature of the claims
- ABI is working with the Money Advice Service (MAS) to build trust regarding IP needs and provision
- The significant majority of Group IP policies now cover “own occupation” rather than “any occupation” which is significantly more restrictive; individual policies are also moving to “own occupation” terms
- As a wrap up, each speaker referenced one key priority for the next Government:
 - ABI – measures to better engage people through the workplace
 - Aviva – IP discussions as a compulsory part of mortgage sales
 - Unum – help for employers with IP provision through a tax break
 - Zurich – improved clarity and communication of health risks to income, and greater visibility of provision by employers (IP) and state benefits.

4. The Group’s view

The Group recognises the importance of insurance for society as well as the importance of the insurance sector to the economy. It also recognises the work done by the sector since 2010 and the distinction between the insurance and the banking sectors. It supports the industry’s joint working to increase IP penetration as a valuable cover in an uncertain world, where loss of income can have such a dramatic impact on individuals and families.

David Morey
25 February 2015