



Institute and Faculty of Actuaries

## Group Risk – laid bare and future proofed

Lee Lovett – Munich Re  
Paul Avis – Canada Life Group Insurance



16 May 2016

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### Our agenda

- Introductions
- Group risk - laid bare.....
  - Product(s)
  - Pricing
  - Underwriting
  - Claims, distribution, etc.
- Group Risk – future proofed.....
  - Is the market growing?
  - Is auto-enrolment an opportunity?
  - Product specific comments
  - Flexible benefits, etc.

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## Group Risk...laid bare

Lee Lovett – Munich Re  
Chairman - GRID



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**Group Risk – niche or mainstream?**

- Annual premium just over £2 bn, mainly with 2 year rate guarantee
- Therefore total “new business” opportunity theoretically = approx. £1 bn p.a.
- However, “lapse rates” are typically 10-20% p.a., so £100-£200 M new business actually available
- Nearly 9 million lives covered for GL, over 2 million for GIP and over 500,000 for GCI, via over 70,000 schemes (some overlap)
- So....a material sized market...but also lots of potential

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**Life cover is life cover.....but**

**Individual cover**

- Stated lump sum payable on death of the policyholder
- Level/DTA/ITA/FIB versions
- Personal cover with no (direct) employment link, p/h pays premiums from net income
- Various GIO's and life-event options

**Group cover**

- Typically multiple of salary, so cover increases with salary
- DISP benefits
- Cover linked to ongoing employment – no job = no cover
- No GIO's or options (unless flex)
- Employer pays premiums
- Cover written in trust, so no IHT liability

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**Income Protection – similar comparison**

**Individual cover**

- Benefit selected by applicant along with appropriate deferred period, retirement age and duration of claim benefits
- Cover and/or claim benefits can escalate
- Proportionate/rehabilitation benefits included
- P/h pays premiums, benefits paid tax free
- Personal/portable cover

**Group Cover**

- Employer provides same cover basis for all (although range of options similar), but can be flex options
- Cover linked to salary, claim benefits can escalate
- Proportionate/rehabilitation benefits included
- Employer pays premiums and benefits paid via PAYE (so net of tax/NI)
- Cover and payment of claims linked to ongoing employment
- Early intervention, support, etc. available as part of cover

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### Critical Illness (flex)

#### Individual cover

- Applicant selects level of cover and duration of cover
- Very comprehensive list of conditions covered, including various partial payments
- GIO's/lifestyle triggers for increasing cover

#### Group Cover (flex)

- Employee elects for CI cover and chooses amount (% of salary or units of £ amount)
- Usually an option for "basic" or "comprehensive" cover; but fewer conditions than individual cover
- No medical u/w - PECE/related conditions excluded
- Regular flex window/lifestyle events – options to change cover

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### Group pricing (scheme underwriting)

- Reviewable rates (every 2 years)
- "Scheme price" is aggregate of individual risk prices, taking account of age & sex; no knowledge of smoking status
- Further adjustment factors:
  - Occupation/Industry type
  - Location
  - Claims experience (if credible)
- Scheme (unit) rate guaranteed for 2 years (unless material change in business mix); so typically a constant cost for Employer (assuming no material changes in work force/salary roll)
- Pro-rata or 50% charge (refund) for new entrants (leavers)

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### Medical Underwriting

- Very few lives medically underwritten (benefits over automatic cover), but typically C-level employees
- No electronic rules (with exception of Ellipse), so traditional u/w process, starting with paper application form
- NML's broadly consistent with individual product limits
- Consistent u/w philosophy and range of decisions; albeit only applicable to benefits above automatic cover level
- "one time" u/w means normal salary related increases in cover won't trigger further u/w (equivalent to RPI increases on individual business)

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## Claims

- Claims assessment processes similar to individual business, typically more straightforward (as no u/w on most cases)
- For GCI – note use of PECE/related conditions wording as there is no medical underwriting
- GRID Claims Data for 2015:

Product	No. claims	Amount £ M	Claims paid
Group Life	9,000	£999.5	99.9%
Group IP*	14,604	£347.0	84%
Group CI	999	£62.6	81%

\*Note: in addition, 1878 employees were helped back to work during the deferred period

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## Quotes and distribution

- All business "advised", from large scale specialist EBC's to small advisers – rates reviewed every 2 years
- Larger employers may have different advisers per product (pension, PMI, risk/protection)
- Advisers can do their own (small) quotes on various providers web based quote engines, but no market comparison tool
- Standard commission rates are 4% (GL) and 12% (GIP/GCI), but often higher for smaller schemes, or fee based advice
- Employers can (and do) review their appointment of advisers from time to time
- How much time spent searching for new clients?

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## Group Risk – future proofed?

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## Is the Group Risk Market growing?

Continuing growth success in group risk is evidenced by the fact that premiums are up **3.6%**, market > **£2bn AP** and we are now covering **11,513,425** people:

Product	Schemes	Annual Change	Lives covered	Annual Change	Annual premiums (millions)	Annual Change
Group Life	50,993	+5%	8,861,092	+2.4%	£1,295.6	+3.6%
Group Income Protection	17,111	0%	2,106,180	+1.3%	£647.7	+2.1%
Group Critical Illness	3,062	+7.8%	546,153	+15%	£85.1	+17.2%

Source: Swiss Re Group Watch Survey 2015

With **1.8m** limited companies going through an Automatic Enrolment staging process:

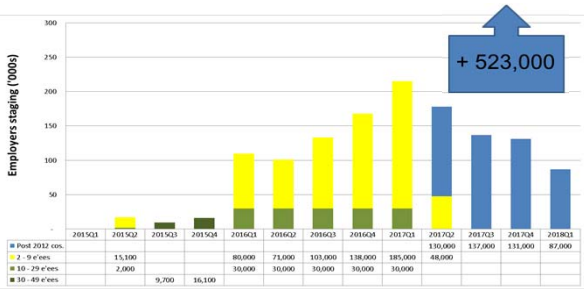
- < 3% of these employers have **Group Life Assurance** schemes
- < 1% of these employers have **Group Income Protection** schemes and
- < 0.2% of these employers have **Group Critical Illness** schemes insured

<sup>1</sup> Source: <https://www.nao.org.uk/press-releases/automatic-enrolment-to-workplace-pension/> 034bpe\_2014\_statistical\_release.pdf

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Pensions Automatic Enrolment offers the opportunity to connect with new customers to the benefits world and also offers a Group Risk opportunity. Specifically easy to buy, simple group life, at an affordable cost is our view



When AE was launched it was expected that 1.277m employers would stage, now it is 1.8m

Source: <https://www.nao.org.uk/press-releases/automatic-enrolment-to-workplace-pension/> 034bpe\_2014\_statistical\_release.pdf

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## The Group Life market has new employers

- **Registered schemes** – 1,525 new schemes
  - Automatic Enrolment as the cause?
  - Differentiator when all have pensions?
  - Larger company benefit is a benchmark for SME?
- **Excepted schemes** – 1,236 new schemes
  - Reduction In Lifetime Allowance?
  - In addition to Registered or replacement?
  - Is product complexity understood and right advice being given?
  - Relevant in a Pension/ISA regime?

Can we remove Group Life benefits from any relationship with pensions legislation – simple and easy to buy with same tax advantages?

We should all aim for this (with Pension/ISA or not!)

- **Death in Service Pension schemes** – 336 fewer schemes than 2014
  - 1,120 less schemes, 195,045 less people covered in last 5 years
  - In same period premiums have increased to £173,337,804 (+£23.5 million) – closed schemes?
  - Decline due to cost, product complexity, low perceived value, move to additional lump sums?

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**The Group Income Protection market at a cross roads**

**Continues to grow by employees covered – 5 years + 270,160**

- Premiums increasing (+ £130m since 2011) also due to interest rates, ageing, morbidity
- Limited benefit payment plans 16.9% (from 11.7% in 2011 / +5.2%)
- Existing schemes expanding - not new employers buying benefit
- AE link to pension schemes has helped but to a lesser extent than Group Life
- Additional services and vocational rehabilitation valued but low usage– 1,878 cases\* / 2.1m e'ees

**Welfare Reform and legislation**

We need clarity re State Benefits / IIP / GIP

- ESA and WRAC change April 2017 – chance to delink / consult in existing market
- Profile of disability benefits shows how hard to get (PIP) and amount of benefit – growth?
- Should we address disincentives (IIP and GIP and means testing of UC) or incentives?

**SLEPT (social, legal, economic, political and technology) agenda**

- Productivity and Health & Wellbeing
- Conflict with need to raise taxes and reduce benefits

\* Source GRID Claims stats May 2016

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**Group Critical Illness – the star but small!**

**Still some challenges**

- Still a P11d / commercial insurance
- PECE, related health conditions and lower percentage claims acceptance than individual
- Group not as complex as individual but no partial payments
- FOS case – advisers and employers have to communicate to employees
- Third party / value services increased utilisation / understanding still needed

We need to either remove P11d or perhaps offer non-P11d to encourage growth

**Still significant opportunities to grow**

- Changing demographics and improved health awareness (but health challenges too)
- Increasing take-up through improved employee communications
- Improving post purchase communications e.g. lifetime events, T&Cs, services
- As flex / online / voluntary / affinity market grows a popular benefit choice

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**Flexible Benefits, Pooling and Distribution**

- Niche areas but growing
- Massively under-penetrated but data/technology driving change
- Adviser repositioning to Health and Wellbeing

**Summary**

- On the surface all looks good
- Tactical challenges driven through legislation take up time
- Biggest challenge: genuine market growth – need new employers

Data / technology will drive growth via data standardisation / e-linkage / improved communication

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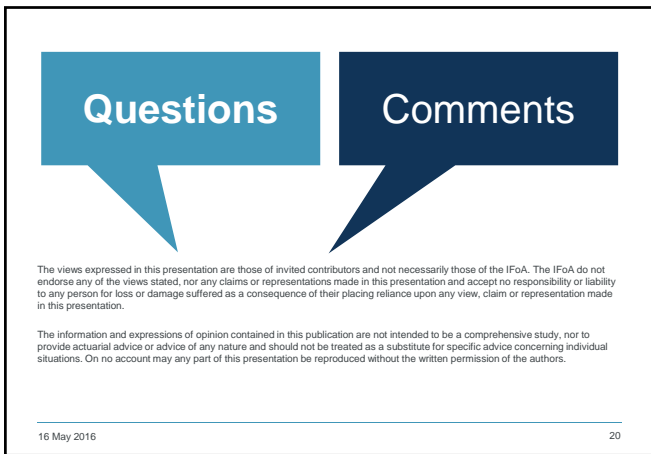
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