What's holding back growth in group protection insurance?

As the UK government reduces State support for health-related work absences, pressure grows on employers and insurers to fill the gap. Group protection insurance could be a key part of the solution, but despite rising societal demand, uptake is slow. What's holding it back, and what can be done?

Background - A shift away from State support?

The government's planned £5 billion reduction in the benefits bill, alongside £1 billion annual investment in employment support, is designed to tackle the burgeoning cost to the State and encourage more people back to work. As the State steps back, the focus is turning to helping more people stay in or return to work.

Other recent reports and reviews also highlight the poor health amongst UK workers. In particular, the Commission for Healthier Working Lives estimates that around 300,000 people a year drop out of the workforce with a work-limiting health condition and highlights the need for urgent reform to support more people with health issues to remain in work. They call for a new partnership between government, businesses and individuals to deliver the long-term changes, including earlier intervention advice to employers, advocacy for workers and referrals to wider support.

In a recent interview with Cover Magazine, Mark Till, CEO at Unum UK, made the important point that currently only "one third of people at work are being helped and protected in the difficult moments" presenting a "big opportunity to the industry as a whole, to help more people protect more people and get greater coverage, because that'll be good for society".

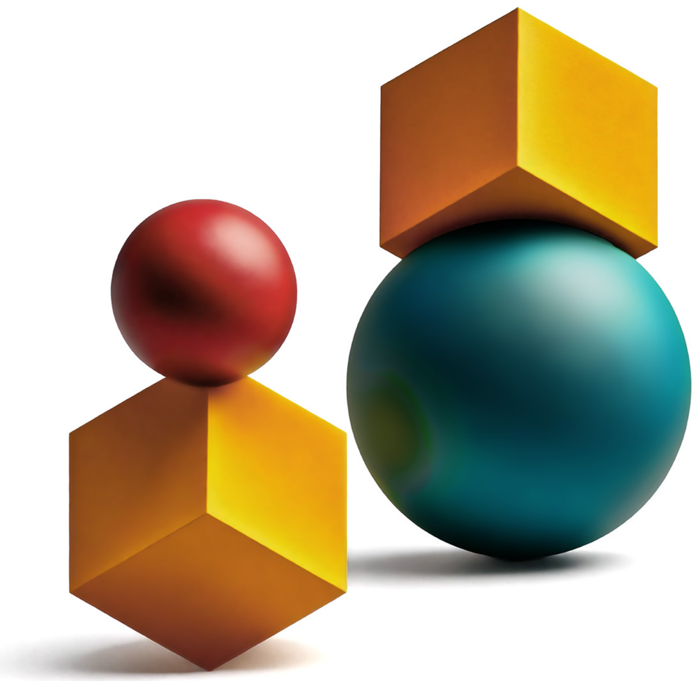
This underlines a fundamental challenge: how can the industry scale its reach quickly and effectively to support the remaining two-thirds? Introducing tax incentives would encourage employers to cover more employees and increase financial resiliency. Combined with early vocational rehabilitation, this presents an opportunity to stop long term disability claims before they start.

UK vs Sweden – a different approach

Lumera's two largest countries of operation are the UK and Sweden. It's interesting to compare these markets. Sweden has already adopted many of the recommendations that are currently being discussed in the UK. For example, Swedish employers are subject to a clear set of legal and financial obligations to support employees experiencing long-term illness or disability. Employers are required to develop rehabilitation plans in cooperation with group protection insurers and intervene early to prevent prolonged absence. Additionally, under collective employer agreements, there is a requirement to provide supplementary disability insurance to enhance the basic state provision.

Low-cost group protection insurance, coupled with value-added health services and employee support, has the opportunity to underpin a modern approach to shared responsibility and help address the developing crisis in the UK. Yet, despite growing demand and policy support, modernisation across the group protection market remains slow and uptake remains low, especially among smaller employers –only 9% have life cover and as few as 3% offer long-term disability insurance (estimate based on ONS and Swiss Re's Group Watch survey based on organisations with 5-50 employees).

This represents a major missed opportunity for early intervention and support, especially in sectors hit hardest by absenteeism and presenteeism – and market potential for group protection providers.



Areas for improvement

Through our work with UK insurers and engagement with the wider group protection market, we see the following blockers that need to be addressed if the coverage is to significantly increase:

- Government incentives and industry promotion of good practice – reduced Insurance Premium Tax would be an incentive. Employer groups and industry associations should push the value of employee health and well-being products and services.
- Packaged insurance options with auto-enrolment pensions – pension providers should partner with group protection insurances to deliver options to enhance their pension products, providing a more rounded employee offering.
- Easy, online access for employers to buy directly – employers, particularly smaller ones, have a range of access to auto-enrolment pensions – directly online, via advisers, via their accountants and payroll providers. Access to a similar range of purchase options would help increase take-up.

Crucially, increasing access isn't just about affordability, it's also about simplicity. Smaller employers in particular need easy-to-understand, plug-and-play solutions that integrate into their existing systems.

What's next?

In our next article, we will focus on a range of specific aspects that will enable these changes, based on our experience and technology support. Most group protection providers are still running on legacy platforms with siloed systems, limited automation and poor connectivity to payroll and HR platforms. This impairs innovation, drives inefficiency, and prevents the development of more personalised, pro-active support models.

UK insurers offer highly-developed products and support services but have for too long been hampered by dated technology.

This is the industry´s biggest barrier to growth, scale and impact. The time for change is now.

About Lumera

Lumera is dedicated to the digital transformation of the European Life and Pensions industry. As insurtech innovators, we provide future-proof core technology for policy administration.

The Prudent Revolution is our mission – bridging technology and partnership to navigate the fastest, safest path through complex change for L&P providers.

We combine tech and industry expertise with relevant market experience to offer a broad range of consultancy and data services – from managing faultless legacy system migration to facilitating compelling end-user experiences.

Based in Stockholm, Lumera has significant presence with offices in the United Kingdom, the Netherlands, Norway, Sweden, India and Vietnam.

lumera.com