John Glen MP
Economic Secretary to the Treasury
House of Commons
London SW1A 0AA

15 March 2018

Dear John,

Association of Financial Mutuals proposal on IPT reform:

Exempting Mutual Health Cash Plans from Insurance Premium Tax

I wanted to write first of all to wish you every success in your new role. You have no shortage of responsibilities, though we were particularly pleased to see the recent importance stressed both by the UK government and the EU in finding an early solution on financial services as part of the negotiations on the UK's withdrawal from the EU.

The Association of Financial Mutuals (AFM) was established on 1 January 2010, as a result of a merger between the Association of Mutual Insurers and the Association of Friendly Societies. Financial Mutuals are member-owned organisations, and the nature of their ownership, and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers.

AFM currently has 49 members and represents mutual insurers, friendly societies and not-for-profit healthcare providers in the UK and Ireland. Between them, mutual insurers manage the savings, protection and healthcare needs of 30 million people, and collect annual premiums of £20 billion.

Over the last few months, AFM and members have had various discussions with officials in HM Treasury and HM Revenue and Customs on the impact of Insurance Premium Tax (IPT). Whilst you may well be aware of the general industry position on IPT, as expressed by the Association of British Insurers, our note focuses on the particular group of mutual health cash plan providers- most of whom we represent- and the impact IPT is having on their business.

Mutual health cash plan providers (as defined below in annex 1) are relatively small organisations, established on a not-for-profit or friendly society basis. They offer low cost healthcare products- starting at around £5 per month, to cover the cost of dental, optical and medical treatment, working alongside the National Health Service.

In the UK, we benefit from one of the best healthcare systems in the world. But trips to hospital, or paying for routine healthcare, such as GP prescriptions, dental check-ups or eye tests, means costs can mount up. And individuals may also need to pay for therapeutic treatments, such as a chiropractor or physiotherapist. The low premiums and accessible nature of the health cash plan makes them attractive to people for whom these costs may be difficult to budget, as well as to employers in providing valuable employment benefits.

Recent independent research by OAC consultants, commissioned by AFM, indicates that mutual health cash plan providers provide benefits to individuals and employers of over £300 million a year. The wider economy benefits by enabling a healthier workforce, in the co-ordination of effort with the NHS, and in getting people back to work more quickly.

IPT has had a significant effect on health cash plan providers: as not-for-profit providers they cannot absorb the cost without reducing benefits or lessening their investment in community projects. Passing on costs has led to higher lapse rates, particularly where large medical insurers are writing policies in trust to avoid paying IPT.

The total incremental cost of IPT to holders of mutual health cash plans was estimated by OAC to be around £30 million in 2016. Our analysis since then suggests that if IPT were abolished, it would increase demand for policies, which in turn would increase the benefits due to society of around £60 million (see annex 2). Our analysis also indicates that the main beneficiaries of these changes would be people earning at or below the national average, as this fits the demographics of the main users of health cash plans (annex 3).

If the government agreed to provide an exemption from IPT for health cash plans, our members have indicated that they would seek to work with officials and the NHS to grow the market further and create wider benefits to society (see annex 4).

We believe there would be a ready consensus in parliament for these proposals, as Labour indicated before the last election that they would abolish IPT for these policies, if elected. We have also shared these proposals with the wider insurance industry.

I hope our proposal demonstrates the willingness of our members to continue to work alongside the NHS, to ensure UK citizens continue to benefit from affordable healthcare and to lead healthier lives in the future.

I hope we have the opportunity to meet in the near future to discuss our proposals. We would also welcome the opportunity for you to attend the AFM Conference, which this year is on 15th and 16th October, to meet our members and share your thoughts on the sector.

Yours sincerely,

Martin Shaw
Chief Executive, Association of Financial Mutuals

Annex 1: Mutual health cash plan

We propose the following definition of *mutual health cash plan*, which is intended to provide a clearly identifiable and ring-fenced market:

Mutual refers to organisations that are either owned by their customers, such as friendly societies or mutual insurers, as well as companies whose business purpose is dedicated to the best interests of customers as well as charitable donations, often on a not-for-profit basis. This therefore would exclude any health cash plans provided by shareholder-owned businesses (though we understand there is only one such provider, writing very small volumes of business). See the list of eligible providers in the Appendix.

Health cash plans allow an individual to claim money back, up to set limits, towards the cost of their and their family's essential healthcare, as well as providing access to valuable health and wellbeing services. They are policies designed for people who are happy to continue using the NHS, along with some complementary health treatments. This is distinct therefore from private medical insurance, which is designed to provide access to private diagnosis and treatment. Health cash plans meet the FCA definitions (in its PERG rulebook) for an insurance policy, which indicate that the normal characteristics of an insurance contract are:

1. in consideration of one or more payments;
2. to pay money or provide a corresponding benefit (including in some cases services to be paid for by the provider) to a 'recipient';
3. in response to a defined event the occurrence of which is uncertain (either as to when it will occur or as to whether it will occur at all) and adverse to the interests of the recipient.

Generally, the premium is fixed at the same level for all policyholders, regardless of their age or the number of claims that they make, and there is no need for a medical examination. Children under 18 are usually covered for free.

There is usually a fixed annual limit for claiming in each benefit category and you can claim as often as you need to until you have reached your limit. Claims are made after the customer has paid for the treatment or service; the most common ones being:

- Dentist: including check-ups and dental treatments, or seeing a hygienist
- Optician: Eye tests and prescription glasses or (often) contact lenses
- Chiropody: Foot treatment and advice
- Physiotherapy: Sometimes coupled with osteopathy
- Maternity payments: Cash, paid when a child is born
- Complementary health: Osteopathy, chiropractic, homeopathy and acupuncture by a registered practitioner
- Hospital in-patient: Cash paid for each night spent in hospital
- Hospital parental stay: Cash paid when a parent spends the night in hospital with an ill child.
- Special consultation: Repayment of fees paid towards a consultant physician or surgeon.
- Personal accident, death and funeral benefits: Cash paid out in the event of accident or death.
- NHS (and private) prescriptions: Some policies pay back on the cost of a limited number of prescriptions.
- Health screening: the policy may pay for an annual health screening.
- Others: Surgical or hearing aids, redundancy payouts, mental health counselling, day surgery, recuperation grants, occupational therapy, diet advice, paternity grants, adoption grants, infertility grants. Many providers have helplines for a range of subjects.

Annex 2: Initial impact assessment of an exemption

The note below is an extract from the recent OAC report mentioned in our letter. OAC is in the process of undertaking further work on the data referred here, which we will forward to Treasury officials in due course.

> "We estimate that holders of HCP and PMI policies paid an extra £32.7m during 2016 due to IPT. If IPT were to be abolished, then these policies would become more affordable and more attractive to individuals and employers alike. A 20% increase in take-up of these policies could potentially add a further £37.0m per year to the benefits shown above, even after allowing for the loss of IPT revenues to the welfare state."

http://www.financialmutuals.org/files/files/OAC%20Report%20-%20The%20benefits%20to%20the%20welfare%20state%20of%20mutuality.pdf

This analysis is reinforced by recent research by the Centre for Economics and Business Research (CEBR), sponsored by BUPA. The report indicated that 200,000 health insurance customers have canceled their policy since IPT increased significantly three years ago. They estimated that every 1% increase in IPT leads to a further 21,000 giving up their health cover. Their research indicated a third of people would consider taking out health cover if costs were reduced, and that 55% of people consider health insurance as an important way of helping to relieve pressure on the NHS.

http://www.independent.co.uk/news/business/news/health-insurance-premium-tax-pushed-200000-private-cover-nhs-bupa-research-a8055286.html

Annex 3: Demographics of the mutual health cash plan market

There is a wide range of mutual health cash plan providers, and whilst their marketing efforts and brand focuses vary, the nature of the product means that it is particularly popular with people on limited income.

The chart below was provided by one of our members, Sovereign Health Care, with analysis provided by Cameo UK. It is typical of most of our members and demonstrates the much greater propensity of people living in less affluent neighbourhoods to buy the product.

The features of the product, which mean that it helps to pay for the cost of basic healthcare, such as dental and optical treatment or the cost of prescriptions, means that the product offer proportionately much more benefit to these households.

This means that the main benefit of an IPT exemption would be felt amongst 'just about managing 'families and people on limited income.

Sovereign Health Care policyholder breakdown

analysis by CAMEO UK Group	Policyholder Paid		Company paid	
01 - Affluent Singles & Couples in Exclusive Urban Neighbourhoods	0.50%		0.40%	
02 - Wealthy Neighbourhoods Nearing & Enjoying Retirement	2.30%		1.80%	
03 - Affluent Home Owning Couples & Families in Large Houses	10.30%		7.70%	
04 - Suburban Home Owners in Smaller Private Family Homes	13.70%		11.50%	
05 - Comfortable Mixed Tenure Neighbourhoods	12.30%		6.90%	
06 - Less Affluent Family Neighbourhoods	19.70%		13.80%	
07 - Less Affluent Singles and Students in Urban Areas	2.30%		3.90%	
08 - Poorer White & Blue Collar Workers	20.00%		19.40%	
09 - Poorer Family and Single Parent Households	10.40%		16.70%	
10 - Poorer Council Tenants Including Many Single Parents	7.80%	60.20%	16.00%	69.80%
XX - Communal Establishments in Mixed Neighbourhoods	0.10%		0.03%	
Unknown	0.70%		1.60%	

This profile is similar to that provided by others of our members, and whilst the absolute distribution of policyholders changes between providers, according to the particular elements of their product and the markets they distribute through, there is a very pronounced focus on families and poorer workers.

Another of our members, Orchard Healthcare indicates that a high proportion of its customer base are elderly: 48% are 61 or over, and 28% over 70. Given the greater healthcare needs of this population, the value of a mutual health cash plan is very significant. With the income of the elderly often low and fixed, IPT raises affordability risks to this group.

Annex 4: How our members plan to grow the market for mutual health cash plans

The removal of IPT will provide a real opportunity for mutual health cash plan providers to market the product more strongly. They will be able to communicate the removal of IPT to individuals, with a message that there has never been a better time to consider a cash plan to support their health and wellbeing.

In similar vein, they will be able to talk to SMEs about the value of supporting their workforce, by providing benefits that help them lead a healthy lifestyle and enable them to get back to work more quickly if they are ill.

Cameo data, such as that presented in Annex 3 above, tends to be used to help firms target their marketing spend to people more likely to purchase their products, looking at the characteristics of the individual, the household and the area that they live. So we can reasonably expect providers can readily focus additional marketing activity to families that will benefit the most.

We would expect AFM members to explore reducing premiums, and that this in turn will help expand demand. This will no doubt the reinforced by enthusiastic messaging from the sector on the recognition by the Government of the contribution health cash plans provide to improving the nation's health.

Some organisations may explore widening benefits as well. For example, we are seeing a trend to support traditional services with a new focus on counselling and support for people suffering from stress and mental health, which are key reasons for absenteeism. Some examples of recent work are attached.

Alongside their policyholder initiatives, the removal of IPT would enable mutual health cash plan providers to continue to make charitable and community investments. Each year our members make significant donations, reflecting their not-for-profit status, so the removal of IPT would give them greater confidence to maintain their valuable support in the communities they serve.

Cafcass Case Study:
Sickness days down by 15% and an employer funded health cash plan that pays for itself.

Cafcass, an organisation that safeguards and promotes the welfare of children involved in family court proceedings, introduced a Medicash employer-funded health cash plan in 2013 to complement their Health and Wellbeing programme.

Problem...

Cafcass wanted to support the wellbeing of their staff and improve the experience of service users at a time when they also needed to deliver over £6m in efficiency savings.

The organisation embarked on a series of Health and Wellbeing initiatives focused on self-sufficiency. As part of this they recognised the need to give staff a means to independently access resources to manage their own health and wellbeing – so decided to introduce an employer-funded health cash plan.

Solution...

In April 2013, Cafcass introduced an employer-funded health cash plan from Medicash, one of the largest healthcare plan providers in the UK.

The plan allows Cafcass staff to access services including optical and dental care, health screenings, physiotherapy, acupuncture and inoculations. Staff can quickly access the support they need, including proactive stress and workplace wellness support and benefit from the flexibility of remaining with their current healthcare providers whilst exploring new avenues.

The Medicash plan was simple to use with little administration for Cafcass and with no pre-existing condition restrictions there was no need for a pre-medical exam.

Outcome...

Since introducing the Medicash plan, sickness has fallen by 15%. Occupational health spending has fallen 40% as an effect of this healthier workforce – validating a preventative approach to sickness.

Long term sickness has been reduced by 20% and stress related illness by 10%. In the first three months, the equivalent salary savings generated by reduced sickness rates paid for an entire year of the Medicash Health plan.

98% of staff took up the Health and Wellbeing Plan, confirming the need for the services and feedback from staff has been overwhelmingly positive. The variety of services accessed highlighted the differing needs of the staff and the advantages of a comprehensive healthcare plan.

- **718 fewer sick days,** a 15% decrease
- **Sickness rate down to 5.6 days per person***, one of the lowest in their sector in the UK
- Equivalent **salary savings in first 3 months paid for entire year** of the plan
- **98% of staff** took up the plan

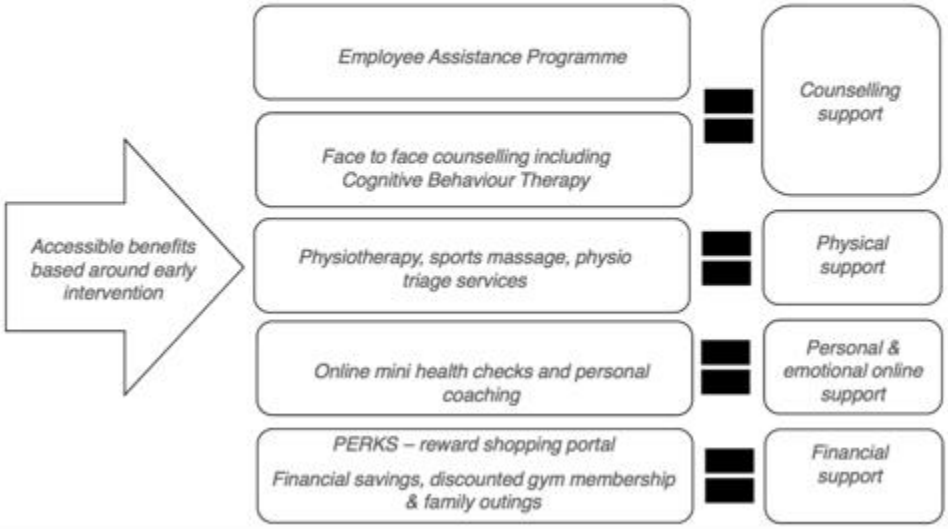
*Excludes leavers

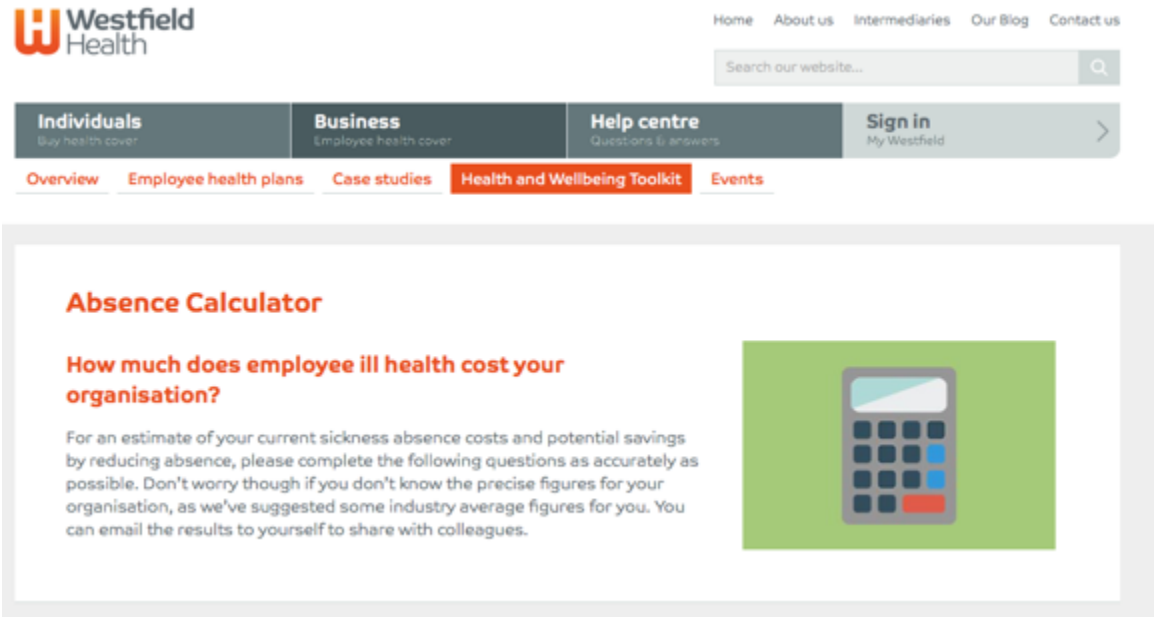
To find out how Medicash can help your business call **0800 195 2992** or visit **www.medicash.org**

+medicash
A **positive** approach to health

How a health cash plan can help support mental health

HEALTHSHIELD
WE'VE GOT YOU COVERED





Appendix: list of mutual health cash plan providers

(AFM members in blue)

Benenden Healthcare

BHSF

BUPA

Exeter Friendly Society

Health Shield Friendly Society

HSF Health Plan

Medicash

Orchard healthcare

Paycare

Plutus Healthcare

Simplyhealth

Sovereign Health Care

UK Healthcare

WHA Healthcare

Westfield Health

WPA