



The Work, Health and Disability consultation,
Ground Floor,
Caxton House,
6–12 Tothill Street,
London, SW1H 9NA

10 February 2017

AFM Response to Green Paper on Improving Lives

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
 - comment on the proposals in the green paper; and
 - offer examples of how mutual and not-for-profit insurers are active in improving lives.
2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not for profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £16.4 billion, and employ nearly 30,000 staff¹.
3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses².
4. In addition, the Bank of England and Financial Services Act 2016 now provides an additional Diversity clause for FiSMA, to require the PRA and FCA to take account of corporate diversity and the mutual business model in all aspects of their work³.

¹ ICMIF, <http://www.icmif.org/global-mutual-market-share-2013>

² Financial Services Act 2012, section 138 K: <http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted>

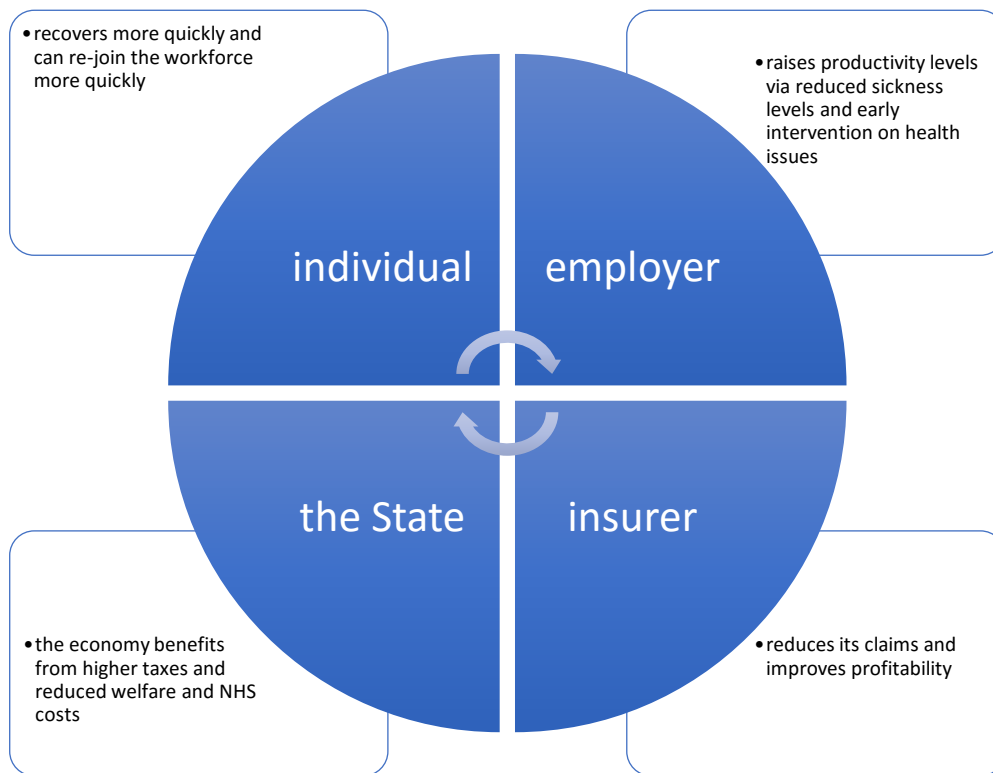
³ <http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted>

5. A significant majority of AFM's 48 members provide healthcare and/ or income protection products, which makes our position unique amongst non-government funded organisations (see the annex for a list of relevant providers). Our role was reinforced at the beginning of 2017 when the operations of the British Health Care Association and its members were absorbed into AFM.



6. Operating on a not-for-profit basis, or being owned by their customers, offers our members the same kind of duties and responsibilities as public service providers, and means they are not focused on maximising shareholder returns; indeed much of their profits are re-invested back into community and in healthcare support. Our members see themselves as offering services that are complementary to the NHS and DWP, not in competition with them.

7. Many of our members have established significant group arrangements with employers who recognise the value of investing further in a healthy and productive workforce. As insurers, the value of investing in healthcare rehabilitation offers value for all stakeholders:



8. The Green Paper sets out a compelling list of challenges, and areas the government plans to act on. In our view, working with partners that can support the NHS and DWP, and facilitate action from employers, will be critical to delivering the government's ambitious set of actions in a cost-effective and productive way.

9. We have provided a range of case studies setting out some of the work our members undertake that is consistent with the themes of the Green Paper. We would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,



Chief Executive
Association of Financial Mutuals

How mutual and not-for-profit insurers support the NHS and Welfare State

Medical insurance and health cash plans

The government has a vital role in tackling inequality, through its work on improving the lives of the disabled, those suffering ill-health, those economically inactive, and otherwise. The nature of these challenges continues to escalate, and the State cannot address these issues without proper responses from individuals, and the right environment to promote self-reliance. For this reason, insurance remains a key part of the solution.

Across AFM's membership, millions of people already have enhanced access to health care. This might be via either a Private Medical Insurance policy, a sickness policy, or a health cash plan.

The healthcare policy might be purchased direct or through their employer, and depending on the nature of cover, costs might be from as little as £5 per month. Depending on the type of policy, this might cover annual dental and optical checks and work, physiotherapy, the cost for payments of staying in hospital with an ill child, personal accident cover, diet advice and even prescriptions. These are benefits that are incremental and complementary to the NHS.

Where the cost is funded by an employer, it will be seen as a valuable benefit and reward for staff, increase motivation and loyalty, and reduce absenteeism. See the panel below on Health Shield Friendly Society's Employee Assistance Programme⁴.


However, an employer-funded policy may attract benefit-in-kind costs as well as Insurance Premium Tax. There is growing evidence that these additional costs are causing employers to weigh up retaining or extending cover. The incremental exchequer income earned by these taxes is small, but the higher costs to society of the loss of these policies will be much greater.

To illustrate, our members provide health and income protection benefits to over two million people, and pay claims each year approaching £400 million. A significant proportion of these claims provide direct savings to the NHS and welfare state, and AFM will shortly produce a report on *"the contribution of the sector to savings in the NHS and welfare state"*.

Products like health cash plans are designed to pay multiple claims each year, whilst claims on income protection can run to several years. This means our members deploy many of the same skills as NHS in DWP, in assessing the suitability of claims, providing treatment, and coaching and rehabilitation to help get people back into the workforce. They also employ wider skills, such as underwriting, to assess the likely claims needs of prospective customers.

⁴ <https://www.healthshield.co.uk/explore-benefits-employee-assistance-programme/>

EXPLORE THE BENEFITS OF AN EMPLOYEE ASSISTANCE PROGRAMME [← Back to blog](#)



By Health Shield | Posted 18th July 2016 | [Blog](#)

[f](#) [t](#) [in](#) [e](#) [r](#)

A number of employers will take on the idea of an Employee Assistance Programme (EAP) as part of their overall company employee benefits, but the extent of its affect goes much further than this and a lot of companies do not realise the full potential.

Everyone will go through life having to deal with some kind of personal problem, and providing employees with a way to cope is hugely beneficial to you and to them. The key is understanding the offering and ensuring everyone involved appreciates the value of an EAP and how and what to do with it.

As a properly managed tool, an EAP can have a big impact on a business's absenteeism and productivity. They can have a big effect on the mental health of employees and as a result their productivity and attendance will improve. The mental health of an individual affects them in more ways than immediately thought.

Having access to qualified, professional counsellors provides an outlet for whatever problems may be affecting them. With an initial phone call and consultation, a counsellor can arrange up to 8 face-to-face sessions to provide advice and help them deal with the issue.

Categories
Blog (29)

Tags

- Absenteesim
- Accounts
- Annual Report
- Blue Monday
- Dental hygiene
- Employee Health and Wellbeing
- Eyecare Fitness
- Health
- Health & Wellbeing
- Health Cash Plan
- Healthy Eating
- Insurance IPT
- Mental Health
- Solvency 2
- Solvency II Stress

Because our members have been in business typically for over 100 years, they have accumulated not just experience, but also a strong capital base. And because they are not owned by shareholders, any profits made are either reinvested in the business, shared with customers or donated to local good causes.

To take one example, Sovereign Health Care has invested over £5 million in good causes in the last eight years, most of it close to its base in Bradford. This includes £48,000 to NHS trusts in Yorkshire already in 2017, and a recent £200,000 donation to sponsor research into cancer medicines⁵.

⁵ <https://www.sovereignhealthcare.co.uk/latest/charitable-trust-donates-200000-to-quest-for-new-cancer-medicines/>



The business model of our members allows them to take a long-term view, to place customer care above higher profitability, and to be good corporate citizens. Benenden's award winning hospital in Kent, with its state-of-the-art facilities, is a centre of excellence for hip and knee replacement, varicose vein treatment and cataract surgery including the use of specialist lenses.

Whilst the sector already has a good working relationship with local government agencies, we consider there is scope to explore how a mutual insurance solution is scalable, and that innovative solutions to healthcare issues that involve the sector can yield financial savings to NHS and DWP, and better outcomes for citizens.

Our role is different from Public Sector Mutuals, but where there are now 100 or more Public Sector Mutuals, the concept of mutual solutions to the provision of public services is now increasingly proved in the UK.

Benenden Hospital redevelopment

Benenden Hospital is undergoing a major redevelopment enabling it to maintain its state-of-the-art facilities and deliver its renowned high quality service. Phase one of the development opened in May 2016. This has provided three brand new theatres with recovery unit, a new endoscopy unit and the Bensan ward a suite of private en-suite rooms, including rooms specially designed to cater for our weight loss surgery patients and any one requiring high dependency support.

Hospital Development March 2016

Benenden Hospital
Building on Excellence
March 2016

Phase two of the development will open in 2017 and will include updated facilities for scanning and diagnostic imaging all under one roof along with an expansion of the physiotherapy area, a new main entrance and atrium area. A new restaurant and café is also part of this phase offering healthy refreshments for patients and visitors. Watch the redevelopment unfold.

The image is a screenshot of a video player showing an aerial view of the Benenden Hospital redevelopment site. The video title is 'Hospital Development March 2016' and the main text overlay reads 'Benenden Hospital Building on Excellence March 2016'. The video player interface shows a progress bar at 0:00 / 2:46 and various control icons.

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.

*Excludes leavers.

- 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



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

+ medicash
A positive approach to health

The case study by Medicash a powerful overview of how one employer benefited from the company health cash plan policy.

The rising and aging population, the increasing costs of treatment, and the greater propensity for people to need health treatments today, are obvious challenges to the NHS. They are just as relevant to mutual insurers, and traditional private medical insurances, like CS Healthcare are developing lower cost 'bridge' products, to provide closer integration with the NHS and another source of taking some of the financial and service strain away from the overworked Service.




In 2016, insurers reportedly invested £3.3 billion in digital technology, a third of it in healthcare, focused on prevention, mobile technology and support to policyholders.

Mutual insurers will also recognise the problem that increasing litigation brings to the NHS, with Defence Unions like MDDUS increasingly under pressure due to the rising tide of personal injury lawyers. We hope the plans to introduce a cap, the case for which is set out below comes to fruition soon.

Medical and Dental Defence Union of Scotland

Despite our name, approaching two-thirds of our 44,000 members are now south of the border. Effectively, we indemnify them against the risk of medical negligence claims and meet their costs when facing action in front of the GMC or GDC. The bulk of the membership are GPs and dentists in primary care, as the indemnity costs of NHS employed doctors are met by the NHS Litigation Authority. Unfortunately our subscription rates for members in England have been rising well above inflation in recent years because of the growing number of medical negligence claims. We have to make a payment in comparatively few cases: usually over 75% of claims are settled without awards these made, but it is very rare indeed that we are able to recover our costs for these claims. The net result of greater costs falling onto our medical and dental members is ultimately more pressure on NHS resources. The NHS, of course, sees the pressure directly and in far higher volume by the cost of claims against hospital doctors falling to the Litigation Authority.

For that reason, we have been strongly supportive of the Government's expressed intention to introduce a cap on the amount of costs which can be recovered in negligence cases. A consultation on this topic was first promised in 2015, but has been the victim of significant slippage. All the evidence we see in our practice is that, far from selecting cases carefully and running them effectively, personal injury lawyers too often adopt a scattergun approach seeking to inflate costs, which are usually some 6- or 7-fold more than we spend in defending cases and which, for small claims, often outweigh the value of the claim itself. In so doing, they clog up the system with unmeritorious cases which has the result of making it harder for cases in which there is a clear problem to be addressed to be resolved in a speedy and effective manner.



Income Protection

We very much agree with the government position that people should be 'better off in work'. The review of the benefits system is outside our areas of expertise, though as we set out elsewhere in our responses, where an individual has access to personal health or protection solutions, this can significantly ease the impact on the State.

Income protection is designed to provide an income- after a specified period (which might be up to six months)- for an individual when they are unable to work due to illness or injury. The policy may be set up on a group basis by the employer, or by the individual.

Friendly societies offer a unique variation of income protection known as Holloway Income Protection. This will generally have a much lower waiting time- often only a day- before benefits are due, and will have sympathetic definitions of occupation, both of which mean that claims ratios are typically over 95% in the sector. The policy may also have a valuable savings element, whereby some of the premiums are set aside into a long-term fund for retirement.

Friendly societies also offer more traditional income protection products, without the savings element, and the nature of the contract means the product is particularly attractive to blue-collar workers and the self-employed.

The case study by Dentists' Provident is illustrative, and provides an example of the type of policy claim they deal with regularly.



Aisha Kalibri



Aisha a **38 year old dentist** who bought her practice in Manchester city centre from her principal five years ago. She has two young children and is usually rushing between home in the suburbs, two different junior schools and her practice. But the last few years have been different; at the end of last year she went back to work after **two years off due to problems** with her back and neck, which meant she was in too much pain to work. As she had made sure her income protection cover was up to date, she still received an income to fund her and her family's lifestyle. Aisha has earnings of **£86,600 pa** and her income protection covers her for the maximum of 60% of her taxable income from her work. She doesn't have any other income protection insurance policies. Aisha's monthly premiums are **£96 for reducing cover*** paid from her first day of illness or injury, so she received benefits of over **£54,000 over the two years**.

**Reducing cover: benefits reduce over time: full rate for the first 26 weeks of accident or illness, 50% for the next 26 weeks and 30% for the rest of the claim.*

In 2012/13 a lot of work was undertaken by the insurance sector to try to develop ‘*simple income protection products*’. This was part of the government sponsored ‘Sergeant Review of Simple Financial Products’⁶, which sought to establish a range of simple, transparent financial products, building on the past success of basic bank accounts.

Whilst the simple products project ultimately failed to maintain momentum, the work on simple income protection garnered significant industry support and has led to many organisations simplifying the terms of their contracts. One of the challenges in delivering an effective solution was the continued risk that where an individual gains benefit from an income protection policy, this might affect the level of State benefits payable.

Currently the product is treated under Universal Credit as ‘unearned income’, whereby the household loses £1 of benefit for every £1 of income from insurance.

That is a significant disincentive for people to build self-reliance, and if benefits from insurance protection were classed as ‘earned income’ that would make a significant difference to sales of the product, and ultimately support more people into work more quickly.

And as the graphic on the right from Cirencester Friendly highlights, most people would not be able to maintain their standard of living and pay the bills on State benefits of £102.15.

This is particularly the case for the self-employed, who would have no employer benefits to fall back on, no access to Statutory Sick Pay, and for many of whom, sources of income dry up immediately in ill-health.

In fact, it is estimated that each year a million people in the UK suffer prolonged absence from work due to illness. Only around one in ten people is covered by insurance⁷.




⁶https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191721/sergeant_review_simple_products_final_report.pdf

⁷ http://www.cii.co.uk/media/7292361/cii_building_resilient_households_report_28oct2016.pdf



Shepherds Friendly Society provides a ‘back to work’ scheme for people that claim on their income protection policy. Their analysis indicates that as a result, the length of time a claimant is unable to work is reduced by 90 days. The society offers access to a valuable network of support services and will put claimants in touch with specialists such as psychologists, councillors and physiotherapists who can help with the recovery process.

Income protections offers a long-term solution to ill-health. Traditionally the most popular form of short-term cover was Payment Protection Insurance. Mis-selling by banks brought the product into ill-repute, but millions of borrowers still have a need to make sure that if they are absent from work through ill-health, the mortgage payments are not put at risk. AFM member CUNA Mutual successfully developed a mutual solution to this problem, which in turn has helped underwrite the credit union expansion project, by enabling credit unions to extend lending to people who would historically have turned to payday lenders.



Payment Waiver provides support to borrowers in times of need.

Waiver programmes are designed and structured to deliver on specific promises made by the lender.

The lender agrees with the borrower that, subject to certain conditions, they will waive the loan repayments and will continue to waive them up to a maximum number of payments. For example, if a borrower becomes ill and cannot work for a period of time, the lender will waive loan repayments. This ensures that the borrower's loan repayments are still met, but 'Waived' or 'funded' by the lender, NOT the borrower, effectively doing precisely what the borrower would have done had they not been ill.

Typically, when lenders incorporate Payment Waiver into their loan offering, they do not pass on any additional cost to their customers. They see Waiver as substantially increasing the value and distinctiveness of their loan offering by providing their customers with peace of mind should they suffer a financial shock, from an unexpected loss of income.

The Green Paper indicated government is already working with the insurance industry to improve the penetration of income protection amongst smaller employers and the self-employed. That is clearly welcome news, and we would encourage wider engagement, including with Holloway providers, whose products are already better targeted to the needs of these groups.

And as we set out above, there is enormous scope for greater engagement between government and health provider members of AFM to develop new solutions to the challenges of the NHS.

Annex: list of members offering healthcare and/ or income protection products

Of AFM's 48 members, 33 provide health or protection products relevant to the topics covered in the Green Paper:

Anglo Saxons Friendly Society
Benenden Healthcare
BHSF
British Friendly Society
Bus Employees Friendly Society
Cirencester friendly
Civil Service Healthcare Society
CUNA Mutual
Dentists & General Mutual Benefit Society
Dentists Provident Society
Exeter Friendly
Grand United Order of Oddfellows
Health Shield FS
Healthy Investment
HSF Health Plan
Lady Grovers' Fund
MDDUS
Medicash
Metropolitan Police FS
National Friendly
Orchard Healthcare
Original Holloway FS
Paycare
Pharmaceutical & General Provident Society
Plutus Health
Sheffield Mutual FS
Shepherds FS
Sovereign Health Care
UK Healthcare
Veterinary Defence Society
WHA Healthcare
Westfield Health
Wiltshire FS

