Demand for UK private medical cover increased in 2015, reversing a declining trend in recent years.

Latest figures from healthcare market intelligence provider LaingBuisson have revealed that the number of private medical cover subscriber policies in the UK grew by 2.1% to reach 4 million, following flat demand from 2012 to 2014 and shrinking demand from 2008 to 2011. Private medical cover includes Private Medical Insurance (PMI) as well as corporate self-insured schemes, known as Healthcare Trusts.

The findings, published in the new edition of LaingBuisson’s in-depth market report, Health Cover, offer good news for a sector which has seen the volume of subscriber policies reduce by 8% since the end of 2008.

Reflecting the extension of a few very large corporate schemes, growth was driven largely by a solid 8% increase in the number of subscribers to self-insured (Healthcare Trust) schemes, as PMI subscribers moved up by 0.4%.

Company paid subscriber policies accounted for just over three-quarters (76.3%) of total market volume demand, representing 3,070,000 subscribers at the end of 2015 as the number of subscribers (insured and self-insured) increased strongly by 3.4%.

Meanwhile, the number of non-corporate individual subscribers continued to decline, falling by 1.7% to 952,000. This meant overall penetration of the UK population by private medical cover edged up to 10.6% at the end of 2015.

Claims paid to private medical cover subscribers in 2015 were valued at £3.6bn, including £2.9bn paid to insured claimants, and £688m paid to claimants covered by self-insured schemes. Overall claims paid increased by 2.1% over the year, while claims on self-insured policies (Healthcare Trusts) were up by 7% and insurance claims overall were up 1%.

Total spending on UK private medical cover (insured and self-insured Healthcare Trusts) grew by 2.8% in 2015 to reach £4.7bn. Within this, premium income generated from sales of insured policies grew by 2.1%, leading to a rise in insurance gross margins to 26.7% in comparison to 25.9% in 2014.

Nevertheless, volumes are yet to bounce back to pre-2008 levels when subscriber demand stood at 4,350,000 - representing market penetration of 12.4% of the UK population.

What is more, the medical cover sector faces further headwinds from recent and forthcoming rises in insurance premium tax (IPT) and uncertainty from the UK’s impending exit from the European Union.

Report author, and healthcare economist, Philip Blackburn commenting on the outlook for 2017 said:

“A sharp increase in IPT from 6% to 9.5% effective from November 2015, and further rise to 10% from November 2016 has loaded significant additional cost for all medical insurance customers. A further hike to 12% in June 2017 will tighten this ‘taxation straightjacket’, and in an industry where affordability has been identified as the primary reason for a lack of growth in demand, this hefty additional burden is likely to mean demand for PMI is vulnerable going forward, but this may be balanced by a shift to Healthcare Trusts.”

“Notwithstanding this, there has been a clear rise in interest in private healthcare recently as more and more people are dissatisfied with higher waiting on the NHS and increased restrictions...
### Health Cover market definitions

**Private Medical Cover** - provides private diagnosis and private healthcare treatment for an acute illness or injury on a short-term basis, and may provide private treatment for other health conditions.

**Health Cash Plans** – provides cash benefits towards everyday healthcare expenses including dental, optical, physiotherapy, and specialist consultations, and also cash for sundry expenses when staying in hospital, and other health related costs.

**Dental Benefit Plans** – provides cover for dental care treatment, which may include accident and emergencies. Capitation offers regular private dental treatment agreed between dentist and patient, insurance provides cash towards private and/or NHS treatment received.

### Health Cover market value, end of 2015

<table>
<thead>
<tr>
<th>Health Cover</th>
<th>Premium Income &amp; Derived Spending on Self-Insured Schemes</th>
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</thead>
<tbody>
<tr>
<td>Private Medical Cover</td>
<td>£4,710m (4,022,000 policies (covering 6.9m people))</td>
</tr>
<tr>
<td>Health Cash Plans</td>
<td>£442m (2,530,000 policies (covering 3.5m people))</td>
</tr>
<tr>
<td>Dental Benefit Plans</td>
<td>£668m (3,310,000 people)</td>
</tr>
</tbody>
</table>

- **Company paid**
  - Private Medical Cover: 76.3% (3,070,000)
  - Health Cash Plans: 35.4% (896,000)
  - Dental Benefit Plans: 76.3% (2,540,000)

- **Individuals**
  - Private Medical Cover: 23.7% (952,000)
  - Health Cash Plans: 64.6% (1,634,000)
  - Dental Benefit Plans: 23.7% (769,000)

- **Average annual premium per policy**
  - Private Medical Cover: £1,023
  - Health Cash Plans: £84
  - Dental Benefit Plans: £103

- **Average annual price paid per plan**
  - Private Medical Cover: £1,909
  - Health Cash Plans: £357
  - Dental Benefit Plans: £214
on NHS treatment. Private medical cover will benefit from this, and there is a wide choice of policy options at different prices to attract customers."

To date, there is no clear indication about the scale of the impact of IPT on the market, and much depends on the degree of price elasticity (how changes in price shift demand) across customers, and whether many more customers choose different cover options to circumvent IPT fuelled price increases, such as a larger excess, reduced coverage, or favourable switching terms.

Certainly, the choice and flexibility of medical cover offered by insurers has never been greater, and there is the option of self-insurance for corporates, which is IPT exempt. More intelligence on the IPT impact is likely to emerge from the calendar 2016 figures published next year.

In addition, the UK’s majority vote for Brexit in June 2016 presents an uncertain economic outlook for the UK in the medium term as the ramifications of exit from the European Union are yet to become clear.

Most predictions soon after the vote were of economic ‘doom and gloom’ going forward as the prospect of many businesses and labour leaving the UK to relocate within the European Union was recognised as a likely scenario. However, several months down the line, the expectation has calmed somewhat as the UK economy has continued to perform well in 2016, and forecasts for 2017 have improved. However, the Brexit impact continues to carry a risk of an ‘economic shock’.

Meet the analyst

Author Philip Blackburn is a trained economist who has worked for LaingBuisson for over 15 years, specialising in applied economic and business analysis of the private acute hospital market, private medical cover, dentistry, children’s services, childcare, and other markets.

Prior to LaingBuisson, Philip spent several years at the Office for National Statistics, writing its monthly Economic Trends and Regional Trends commentary.

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In a market where affordability and corporate prosperity rules, between the impact of Insurance Premium Tax hikes and the economic and business uncertainty caused by the Brexit vote, future prospects of the private medical cover market are uncertain and challenging.

While a bump in the number of subscribers taking private medical cover in 2015 provided a hint of good news in a market still reeling after the last economic crisis, a hike in Insurance Premium Tax and expectations of an economic slowdown from Brexit, provide a dampener for medical cover demand. However, we do see interest in private healthcare widening as NHS performance continues to falter in its battle to meet increasing needs.

Some £3.8 billion was generated in 2015 through private medical insurance premiums (average premium price £1,293), while £2.9 billion was paid out in insurance claims, as gross margins moved up to 27%. In addition, medical schemes self-insured by employers paid out £690 million in claims, as the self-insured market reached a new high.

**Volume bump for corporate cover**

This comprehensive report from LaingBuisson shows an increase of some 83,000 annual policy subscribers in 2015. While still some way shy of the pre-crash peak of 4.35 million subscribers, this marked the biggest user growth since 2007.

Analysis shows this growth was driven primarily by the expansion of a handful of large corporate schemes, combined with a small gain in SME business after some recent losses. Behind this was effective containment of claims costs which saw a number of large corporates extending their schemes to more staff. Another highlight of 2015 was improved retention and solid new business.

LaingBuisson’s report previews future challenges and opportunities for private medical cover where cost containment and affordability, corporate health and wellbeing, and a wide choice of cover for high quality private healthcare across the whole care pathway, shape the sector’s future.

**Who is the report for**

- All professionals working in or with medical insurance providers
- All professionals working in or with health cash plan providers
- C-suite professionals working in hospitals and clinics
- Specialist care providers including physiotherapists, wellness services etc
- Private dentistry groups
- Risk managers
- Investors and Private Equity
- Banks
- Central Government
- Think Tanks
- Lawyers
- Management Consultants

**What the report covers**

- UK private medical cover
- Types of cover
  - Private Medical Insurance
  - Self-insured Medical Schemes
- Health Cash Plans
- Dental Plans
- Primary Care GP Cover
- Market demand volumes
- Market income and values
- Historic trends
- Future outlooks
- Premiums
- Claims paid & margins
- Historic trends
- Future trends
- Product innovation
- Distribution
- Market structure

**Financial Appendix**

**Continued uncertainty for insurers?**

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