

# Why pricing shouldn't be the primary consideration when assessing group risk benefits insurance

In difficult economic times, companies are under pressure to do more with less – and managing pension funds and particularly risk benefits; is no exception. Many companies gravitate towards group risk benefits insurance providers primarily based on pricing to minimise costs. However, focusing solely on price presents risks for both companies and their employees.



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## The increased risk of underinsurance

Companies provide their employees with a standard level of death benefits based on their pensionable salary. However, the cover may be less comprehensive, with a reduced scope of coverage. Disability benefits and severe illness benefits are not looked at comprehensively. This can include an employee not being able to receive a longer term benefit if a policy only covers temporary income benefits. Every employee requires a different level of cover based on their needs. Employers are forced to negotiate lower premiums, exposing employees to gaps in their cover that can result in significant losses in an unforeseen incident.

Placing focus on pricing in the selection of group risks and benefits poses a threat of compromising employees to a variety of risks without having the necessary tools to safeguard themselves. According to the Life and Disability Insurance Gap Study, the average South African income earner had a life insurance shortfall of at least R1 million and a disability cover gap of around R1.4 million at the end of December 2021. The study shows that South Africa's 14.3 million income earners had only enough life and disability insurance to cover 45% of the total insurance needs of their households.<sup>1</sup>

Inflation continues to rise, which is likely to affect the pricing of premiums. Employers need to encourage employees to hold consistent engagements with risk managers for a better understanding of the risk landscape – and to take practical steps to understand the risk landscape better – and to take effective measures to anticipate and deal with the risk of underinsurance.

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### Differences in claims terms and pay outs

The way insurance policies are structured is another key consideration. Insurance providers have distinct terms and conditions relating to claim payment periods and benefits limits. The poor selection of an inefficient insurer can pose a challenge that includes:

*Inconsistent service delivery* – This occurs when incoherent processes and a lack of insight/expertise in data and task management. The inability to prioritise the next steps for each claim can lead to delays, inaccuracies and inconsistencies in claim outcomes and decisions.

*Poor integration* – The lack of integration in internal and external systems can escalate the complexity of insurers' IT environments and add up to several issues, such as increased fraudulent claims and delays in finalisation. The main risk associated with poor data integration is working with outdated or incorrect data, which can affect payment levels and customer satisfaction.

Like any business, employers need to stay updated about the various risks and benefits available to employees. Therefore, it is essential that pricing is not the most significant factor in picking a group risk benefits provider. Rather, a partner that can understand the type of coverage customers require and create holistic products that provide sufficient coverage and also offer a better customer experience, should be considered.

### Poor customer servicing and benefit options

Insurers need to update their service and products to meet evolving needs continually. When relying on cheaper insurers, there is a significant risk that the standard of customer servicing will be compromised, including the type of advisory insurers can provide to ensure effective risk management.

Companies should value strong business partnerships with insurers that can operate with a long term view in terms of the sustainability of employees and providing innovative coverage that is in line with socio-economic needs.

While pricing may be important in choosing a group risk benefits insurance provider, it cannot be the only consideration. When assessing insurers, it is crucial to have a comprehensive approach to guarantee picking a partner that is fit for purpose against various risks.