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# The Future of Canadian Group Benefits

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In recent years the life and health insurance industry has felt the ripple effect of emerging technologies and the shift in customer expectations driven by other sectors. While albeit lagging behind in their response, insurers globally are now on the cusp of transformation. In Canada, insurers, third-party administrators, advisors, and consulting firms are particularly concerned with what the future has in store for their group benefits business, which combined made up approximately 39 percent of Canada's 2016 total life and health insurance premiums.

While individual lines and group retirement continue to be markets ripe for disruption, the high-touch, high-volume nature

associated with that of group benefits results in a number of significant customer (both plan sponsor and member) friction points, thereby accelerating it on the list of executive's priorities.

This creates a strategic imperative to explore how group benefits may evolve in Canada as a result of several key drivers, and the implications across product development, pricing and underwriting as carriers look to gain a competitive advantage in the future of group benefits.

Amongst several forces driving change in the insurance industry, there are five primary factors in and outside of group benefits that are encouraging incumbents to rethink their traditional business models and product offerings:

1. **Rapid shifts in customer expectations**—Driven by experiences offered by other sectors, today's consumers are demanding an improved customer experience from discovery through to claims. They are looking for increased transparency, improved digital capabilities and a more personalized experience from their group benefits provider.
2. **Emerging technologies and increased availability of data**—Group benefits providers are looking to capitalize on the integration of third-party data with traditional datasets



and emerging technologies to achieve operational efficiencies and data-driven insights for more actionable business decisions.

3. **Increasing competition**—There is an increasing number of new startups and insurtechs presenting both an opportunity and a threat as they look to target pain points unaddressed by traditional incumbents through technology-led solutions. In addition, several specialty health care providers are emerging as competitors as there is an increasing overlap with the non-traditional benefit services offered by carriers and that of specialty health care providers.
4. **Increasing plan costs**—The sharp increase in specialty drug costs and the rising incidence of mental illness have driven plan costs up significantly in recent years. Sponsors and carriers are actively looking for opportunities to proactively manage plan costs and decrease the frequency and severity of disability claims.
5. **Evolving workforce demographics**—Across Canada there is an increasing number of contract workers, solopreneurs, microbusinesses and millennials entering the workforce with new and vastly varying benefit demands not currently being met by traditional benefit plans.

Insurers must not just react but prepare for the future or risk being left behind.

While several carriers across the country have started to respond to these evolving market dynamics, there remains to be a clear leader in this space. However, given the rapid pace of change upon us there is now a widespread understanding that one must not just react but also sense the direction the market will take and prepare for the future or risk being left behind.

On the brighter side, with uncertainty comes opportunity. The path forward is an exciting one with leaders in the space looking to future proof their business by renewing their strategic focus, developing a new differentiated value proposition, refreshing their product suite and redesigning their traditional business models.

Despite the uncertainty of the future, there are foundational capabilities, existing friction points and evolving customer demands across the value chain that will need to be addressed if a carrier wishes to achieve a competitive advantage in the future of group benefits.

1. **Balancing sponsor cost with member value:** While managing plan cost is front and center in the minds of sponsors, they consider their benefits offering to be a critical part of their talent strategy. However, due to the commoditization of group health and dental plans, these have become table stakes with nontraditional benefits in the form of “work perks” becoming an important tool for attracting and retaining talent. Members expect to have some level of health and dental coverage included in their benefits but tend to place the most value on benefits they first and foremost understand and those in which they can realize the benefit of in the short term (i.e., health care spending accounts) versus those they do not plan—ideally—to use (i.e., life insurance). Benefit providers will not only need to take a proactive approach to cost management for plan sponsors and actively seek new ways to reduce costs through plan design and improved claims experience, but they will need the ability to develop creative solutions that balance traditional offerings with those members perceive true value in if they want to gain sponsor buy-in.
2. **Redefining your customer:** Historically the plan sponsor has been the primary customer in the eyes of advisors and carriers. Evolving customer expectations and the increased frequency in which carriers interact with members directly are forcing the need for carriers to become more member centric. While the sponsor may dictate the suite of benefits that the member has access to, the experience provided at the member level across onboarding, servicing and claims can strongly influence who the sponsor selects as their benefits provider. The products and services as well as the communication and distribution channels offered by an insurance carrier must cater to both the sponsor and the member. Developing a deeper understanding of member needs and how those vary by segment (e.g., group size, industry, demographic etc.) in order to customize solutions and provide an improved experience that better meets the unique needs of the underlying members must be at the center of how insurers operate and distribute in the future.
3. **Integrated market exchange:** The reduction in plan coverage and the increase in the number of contract workers without access to benefits has increased the demand for individual and top-up coverage. To date carriers have remained fairly unsuccessful in their attempt to cross-sell for numerous reasons such as approval from the plan sponsor or the lack of data availability and integration across business lines. However, driven by experiences in other sectors members are increasingly open to more personalized marketing, particularly if it means a more convenient purchasing process.

Should members have an increased propensity to purchase all of their insurance needs (i.e., health, wealth and lifestyle products) from one convenient platform, sponsors may be more likely to grant providers direct access to members. Competing in the future will mean providing members with a one-stop shop for all of their needs, which given the desire for more “work perk” oriented products may not be limited to that of just standard benefit or insurance products. To provide a direct-to-member service offering will require the seamless integration amongst various internal business lines, data and operations. Ensuring you are equipped with the digital platforms and supporting data and analytics capabilities required to distribute members a wide range of products will be foundational to achieving a competitive advantage in the group benefits market and ultimately across all lines of business.

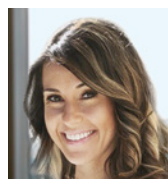
4. **Advisor of the future:** Distribution has seen the greatest amount of disruption as new entrants and now incumbents look to address unmet needs in the market. Small groups (roughly <50) are increasingly being targeted through low-cost digital distribution channels enabled by simplified, pre-packaged solutions and digital advice. Similarly, the shift towards a member centric offering looks to connect direct-to-member. However, with increased flexibility and benefit choice comes an increased demand for product transparency, awareness and personalized advice. The ability to successfully target small groups and members directly via digital channels will be heavily dependent on not only your digital capabilities but a carrier’s ability to develop simplified products that support digital distribution and personalized advice largely enabled by advanced analytics and emerging technologies such as artificial intelligence.

Mid to large groups (100+ lives) continue to place a heavy reliance on their relationship with the advisor and value face-to-face advice. As advisors are expected to remain a critical role in the future of group benefits—albeit with new expectations—identifying the advisor segments most critical to the future growth of your group benefits business

and equipping them with the tools and training required to enhance the sales experience will be increasingly important as carriers look to secure a strong sales force and maintain their market presence.

5. **Engaging in nontraditional partnerships:** The ability to transform into a leader in the group benefits space will require several new capabilities, skillsets and product offerings not traditionally core to insurance operations. Particularly technology and digital capabilities with significant upfront investment and resources will be difficult to build at the pace required to win in the market. Curating a “partner ecosystem” will be key to both managing fixed costs and creating differentiation, hence engaging with non-traditional partners such as startups, insurtechs or health care specialists with technology-enabled solutions are expected to become common business models of the future. In this new market, carriers may be required to make new choices around where they will play across the value chain. They will need to identify what capabilities they believe to be core to their operations and how they can augment those through the increased use of external partnerships.

The ability to design and distribute your products and services in a way that adheres to the unique needs of the member while balancing plan cost and value for plan sponsors will be key to winning in the future of Canadian group benefits but may require a review of your current strategy, value proposition, capabilities and business models. It will no doubt be an exciting yet long transformational journey but the outlook for group benefits in Canada looks promising as carriers begin to capitalize on the opportunities presented and future proof their business for these changing market dynamics. ■



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