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Worksite Marketing — A Channel Whose Time Has Come?

by Mark L. Trencher

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Conning & Company recently collaborated with Eastbridge Consulting Group in exploring the topic of worksite marketing, examining in detail what it takes to be a worksite winner, including case studies of both failure and success. This article summarizes a few of the key findings from this study, "Worksite Marketing - Reality versus Promise." For more information, readers should call Conning at 1-888-707-1177.

Distribution continues to be the major focus for life insurance industry top management. Executives continue to search for the most efficient and cost-effective ways to deliver products to targeted markets. Tillinghast-Towers Perrin's 1999 survey of life company CEOs confirmed this finding, with 85% of industry leaders ranking "distribution channel productivity" as one of their top three strategic issues.

As insurers enter the 21st century, new distribution methods — many involving the Internet — are certain to emerge and compete with existing channels. It also is likely that enterprising companies will find ways to fulfill the promise of existing channels, especially ones whose effectiveness is dependent on the technology solutions that the Internet can provide. Worksite marketing is one such channel.

(continued on page 3, bottom

Chairperson's Corner
Farewell...

by Carl E. Meier

As I write this column, my three-year term on the Nontraditional Marketing Section Council, as well as those of two other Council members, Grant Hemphill and John Yanko, is fast winding down.

It's been an exciting time for our Section. Developments in bancassurance and Internet marketing have brought many actuaries to the realization that the "nontraditional" is fast becoming the norm in our industry. In keeping with the mission statement we adopted last summer, our Section has sought to provide valuable additional information on important and timely subjects such as these, through presentations at the spring and annual SOA

(continued on page 2, column 1)

In This Issue

NewsDirect itself is in for some changes as well. Following the publication of this issue, Joe Brennan, who has served as our editor for the last two years, is turning over the duties to two new co-editors, Chris Hause and Julie Tani. Chris and Julie have expressed a great deal of enthusiasm, which should be an indicator of good things to come.

While three of us will soon leave the Council, there are several experienced Council members who will remain, and they will be joined by three people who were elected this summer (see the article elsewhere in this issue to find out more about the new Council members). This coming year is perhaps one of the brightest in a long time in that regard. The returning Council members have made many significant contributions to the Section already, and I believe that the varied backgrounds of the new members will add some valuable new perspectives to the mix.

In closing, I'd like to thank a group of people who have been perhaps one of the most important, but least heralded, reasons behind the successes our Section has enjoyed these past few years. This is a group known as the "Friends of the Council." I won't name names, because the makeup of the group is constantly changing, and I wouldn't want to leave anyone out. The Friends group generally consists of 6 to 10 people who have been members of the Section Council in past years, and who voluntarily make themselves available to the current Council members to help in any way they can.

There are usually several members of the Friends group on each of our teleconferences, ready and willing to share their wisdom and experience. They provide invaluable assistance in locating and recruiting program participants, and they frequently participate themselves when we are in need and have no one else to turn to. Finally, they are a valuable source of the enthusiasm that drives the Nontraditional Marketing Section.

As I said at the beginning, it's been an exciting three years for my soon-to-retire colleagues and me. And, if only a small portion of the membership-at-large can match the kind of enthusiasm that is so evident among those who will be leading the Section in the coming year, then we truly "ain't seen nuthin' yet!"

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Worksite Marketing — A Channel Whose Time Has Come?
from page 1

Profiling the Market

Worksite – also known as voluntary payroll deduction – is a sales method that has reached workers since the 19th century. The concept has always appealed to employees, employers, and insurers. Employees like the convenience of making insurance purchases at work using payroll deduction for the premiums. Employers like the good will resulting from offering an almost cost-free benefit. Finally, insurers like the lower selling costs and expanded market that worksite distribution provides for their products. In the late 1970s and early 1980s, traditional career agents abandoned the lower- and middle-income markets. Many life insurers looked to worksite marketing as a way to distribute their products cost-effectively to these abandoned segments.

Worksite sales in 1998 totaled an estimated $2 billion in new annualized premium, with an estimated $9 billion of in-force premium. These premiums come from a wide range of life and health products — including universal life, term life, annuities, short-term disability, long-term disability, hospitalization, dread disease, dental, and vision.

Two insurers — AFLAC and Colonial Life & Accident — account for roughly 35% of new worksite sales, but the current market is very fragmented, with few insurers having a market share over 2%. In fact, the top ten competitors in the worksite arena control barely half of the total market.

Additionally, only a handful of companies are devoted exclusively to the channel, as witnessed by the names of the companies among the top ten worksite sellers. Most carriers see the worksite simply as one of many ways to reach potential customers. Many insurers have dabbled in the worksite channel instead of committing themselves to it — and, as a result, have contributed little to solving the channel's distribution and operational weaknesses, because the channel is not their full-time focus. Consequently, the market can be divided roughly into three major categories of worksite marketers: large traditional worksite carriers, large diversified insurance companies with worksite efforts, and regional or niche worksite players.

Among the large traditional worksite carriers are companies such as AFLAC, American Fidelity Assurance, American Heritage (recently acquired by Allstate) and Colonial Life & Accident (now part of UNUM-Provident). In the second category — large diversified insurers with worksite efforts — are companies like AEGON, Conseco (with four

(continued on page 4, column 1)

Worksite Marketing — A Channel Whose Time Has Come?
from page 3

subsidiary companies), Fortis, GE Capital, Metropolitan, ReliaStar, and Trustmark. Finally, in the niche players category are many smaller firms such as Baltimore Life, Employers Modern Life, Loyal American Life, and Rocky Mountain Life.

Conning predicts that, with no changes in the business model, worksite-marketing sales will more than double by 2003, reaching $4.3 billion. New premiums will double in both the middle and upscale markets (as defined by household income and assets), but the middle market will continue to account for approximately three-fourths of the worksite-marketed business.

While these projections indicate that worksite strategies have enjoyed some success, the channel has not flourished. Today, worksite marketing accounts for less than 2% of all insurance sales — a small portion of total industry premiums. Further, there remain as many as 1.4 million untapped employer accounts for new worksite programs, with tens of millions of workers waiting for the opportunity to buy supplemental insurance products in the workplace.

"Insurers have little or no control over how the enrollments are conducted. Because enrollments typically are handled by independent agents, producers can do and say what they please. They can play up their 'brand' and/or downplay or hide the insurer's."

Weaknesses in the Method

Worksite marketing's current unrealized potential is due to lack of adequate distribution capacity, which results in bottlenecks, and the inefficiency of current enrollment approaches. In large part, the distribution bottleneck is caused by the multiple-party nature of the worksite sale. Enrollment inefficiency is the result of relying on producers to handle enrollment. Both of these stumbling blocks can be overcome by emerging advances in technology.

Worksite marketing usually involves not one, but several sales targets — the producer, the employer, and finally, the employee. Only a handful of the largest worksite insurers employ dedicated career agents (e.g., AFLAC, Colonial). Most rely on brokers as their primary producers. As a consequence, the insurer's first task is to "sell" the producer — convince the broker to push the insurer's products. This "sell" is difficult because the industry has much more product manufacturing capacity than distribution capacity. Because it is easier to manage product offerings than producer relationships, most worksite insurers focus on products rather than producers — resulting in a scarcity of skilled, successful producers. Worksite sales will soar only when the manufacturing/distribution imbalance is righted.

Subsequent to the producer sale, the worksite insurer must sell (via the producer) the employer and then the employer's employees. Numerous factors are important for these sales — innovative product design, competitive pricing, superior marketing material. However, the most important expertise is enrollment — actually signing employees up for the insurance coverage.

In today's worksite business model, the producers who open new employer accounts are primarily responsible for enrolling employees, either by doing it themselves or outsourcing the task. Unfortunately, producers' enrollment procedures often do an inadequate job of educating and counseling employees about their benefit choices and often do not support the application process well (e.g., leaving employees to fill out their own forms). The result is that employee enrollment often falls below target goals, raising unit costs and threatening the insurer's profitability — for the customer and the worksite channel as a whole.

Additionally, re-enrollment — returning to the worksite to sign up new employees or ones who declined the coverage on the first go-around — also is a problem. Producers have little incentive to conduct re-enrollments within existing accounts. There are always more new customer opportunities, which offer higher premium potential and, consequently, higher commissions. Under the present system, it does not make economic sense for producers to resolicit existing accounts, even though writing more business would be highly profitable for the insurer. (For this reason, worksite insurers often employ a strategy of regularly introducing new products to existing accounts to make it economically worthwhile for the producer to return to the account.)

Insurers have little or no control over how the enrollments are conducted. Because enrollments typically are handled by independent agents, producers can do and say what they please. They can play up their "brand" and/or downplay or hide the insurer's. They can use technology or not use it. And they can respond — or not — to employee inquiries, depending on their schedules.

Fortunately, today's business model — where worksite insurers are faced with insufficient distribution and little or no control over the enrollment process — is on the brink of change. The development and implementation of advanced technologies has the potential to literally sweep away the enrollment constraints under which insurers have labored since the 1950s, and also will enable more producers to sell worksite services, expanding the current distribution "bottleneck."

Re-engineering Worksite Marketing

To achieve an exponential increase in worksite sales (rather than the gradual growth projected under the current model), companies need to use technology to substantially re-engineer the entire enrollment process. The result: increased quality at the point of sale and more effective leveraging of client relationships over time. Under the new system, producers still would pursue and close new accounts — their strong suit — then hand off enrollment to the insurer, freeing the producer to open additional accounts. Insurers then could use technology to pursue the remaining employees in the account, eliminating the economic barrier (high solicitation costs) to re-enrollment.

Two new technology-enabled trends are emerging to accomplish this task: web-based employee communications and web-based benefits marketing. Web-based employee communications can substantially improve pre-enrollment employee communication, a prelude to increasing employee sales. Web-based benefits marketing replaces the often suboptimal enrollment procedures that producers have used with direct Web site marketing, supported by call centers, to the employee population.

Conning believes that the emergence of worksite marketing from a small niche of the insurance market to a major distribution channel depends on the integration of new technologies with traditional distribution methods. This new marketing and sales platform will generate substantially higher sales and customer satisfaction — at reduced costs.

The future prospects for the worksite channel are extremely promising. The emergence of new technologies promises to move the industry from today's "distributor-centric" business model to a much more successful "technology-enabled" model. But competing in the worksite arena today requires more than just the ability to do worksite marketing. Commitment and focus are needed, but are not enough to guarantee success. Top-tier companies must rise above the masses and become identified for what they "bring to the table."

So, what will it take to be a winner in worksite marketing?

Focus, Not Supplement

As insurer management focuses more and more on the "correct" distribution choice (i.e., how best to sell to the company's target markets), an increasing number of carriers considered to be large diversified insurers with worksite efforts are taking another look at worksite marketing to decide if the channel makes sense for their strategy. As a result, the pace of shake-outs, consolidations, and roll-ups in the worksite arena has quickened in recent years. A number of companies have exited the market — Security Life of Denver (left the business due to poor financial performance), John Hancock (demutualization pressures), and Jefferson-Pilot (lack of critical mass).

At the same time, many smaller companies have been acquired and integrated into larger organizations interested in the worksite channel. As far back as 1994, UNUM acquired Colonial Life & Accident in order to add a worksite capability. GE Capital, for similar reasons, acquired First Colony, Union Fidelity, and Professional Insurance Corp. Recently, GE announced the purchase of Phoenix Home Life Mutual's group insurance operations, a move designed to add products and scale to its existing worksite efforts.

Other notable combinations included Conseco's acquisition of Capitol American, Allstate buying American Heritage, AEGON buying Trans-america Assurance and Metropolitan buying the worksite business of Business Men's Assurance, (BMA). Median valuations for worksite companies are in the 15% GAAP earnings range. Conning expects consolidation to continue over the short term, with most companies finding it cheaper to acquire worksite products, existing accounts and distributor relationships rather than building these capabilities from the ground up.

Pitfalls to Overcome

The decision to pursue employee worksite distribution is not the same, however, as pursuing it successfully. Distribution and enrollment roadblocks make successful implementation of the current worksite business model difficult. There are also potential pitfalls for management. A successful worksite marketing approach requires adoption of three strategic imperatives: intent, focus, and differentiation. Failure in any one of these areas generally results in an unsuccessful or, at best, mediocre program.

The starting point for any successful worksite marketing strategy is establishing the intent to be a worksite marketer. This means that the company must focus on worksite as a discrete business — not just a supplementary program to sell more insurance, to rationalize excess underwriting and/or manufacturing capacity, or to follow the lead of competitors. Companies must fully commit to the business — developing the producer relationships and investing in the operational systems that will enable them to compete successfully. This is especially true now, as new communication and enrollment technologies change the ways that carriers interact with producers, employers, and employees. If treated as a marginal or "side" business, worksite marketing produces only marginal results.

Strategic Focus

Once a company commits itself to the worksite business, it must determine its strategic focus. Rather than attempting to be all things to all people, it should focus on one of three potential worksite strategies:

(continued on page 6, column 1)

Worksite Marketing — A Channel Whose Time Has Come?

from page 5

- Being product-driven — offering innovative, competitive products
- Being market-driven — understanding and meeting the needs of a given market segment
- Being distribution-driven — catering to the requirements of targeted worksite distributors

Focusing on one major strategy generally is the best course in worksite marketing, a conclusion supported by the fact that the top worksite carriers typically have a single strategic focus that they are known for. This is not to say that a company cannot attempt to do all three — product, target market, and distribution are all areas critical for worksite success — but one strategy must be primary and the others secondary. There are many examples of companies that tried to be all things to all people and ended up doing no single thing well as a result.

Differentiation Creates Success

Despite a full commitment to worksite marketing and focus on and execution of the right strategy, success still is not guaranteed. Given the intensity of the competitive rivalry in worksite marketing today, carriers must bring one other thing to the table — strategic differentiation.

This involves creating a value proposition within the company's strategy that is so compelling that it lifts the company head-and-shoulders above its competitors. Differentiation can occur in a variety of areas, such as being the market leader in product innovation, offering the highest commissions, providing the best back-office support, or establishing trusted brand-name appeal. However, the insurer's differentiation strategy must be consistent with its overall strategic focus, regardless of the specifics of the differentiation strategy. (For example, offering the highest commissions would be a differentiator in a distribution-driven strategy, but would be inconsistent with a product-driven strategy.)

Top 10 Worksite Marketing Companies
Based on Estimated 1998 New Sales Premium
($ in millions)

Carrier	Premium	*Market Share %*
AFLAC	$450	*22.5%*
Colonial Life & Accident	220	*11.0%*
Metropolitan	95	*4.7%*
American Heritage Life	80	*4.0%*
American Fidelity Assurance	45	*2.2%*
Conseco	45	*2.2%*
Guardian	35	*1.7%*
Transamerica Assurance	30	*1.5%*
Provident	29	*1.5%*
ReliaStar	29	*1.5%*
Top 10 Total	**$1,058**	***52.9%***
Industry Total (est.)	**$2,000**	

Source: Eastbridge Consulting Group, Inc.

Worksite-Driven Consolidations

($ in millions)

Year	Buyer	Target	Transaction Value	GAAP P/E	GAAP P/B	STAT P/B
1994	UNUM Corp.	Colonial Life & Accident	$ 656	–	–	6.0×
1995	GE Capital	Union Fidelity Life	26	–	–	1.4×
1996	Conseco	Capitol American	709	15.4×	2.4×	7.5×
1996	GE Capital	First Colony Life	2,170	14.3×	1.5×	4.1×
1998	Provident Life & Accident	UNUM Corp.	5,000	16.5×	1.3×	3.8×
1999	AEGON	Transamerica	9,700	13.7×	1.7×	5.2×
1999	Allstate Corp.	American Heritage Life	1,100	29.0×	4.1×	7.4×
1999	GE Capital	Professional Insurance Corporation	48	–	–	6.8×
1999	GE Capital	Phoenix Home Life (group insurance operation)	N/A	–	–	–
2000	Metropolitan	BMA (worksite division)	N/A	–	–	–
	Median			**15.4×**	**1.7×**	**5.6×**

Source: Conning proprietary database

NAIC TO CONSIDER CREDIT DISABILITY STANDARDS

by Steve Ostlund

Partially due to the publishing of “A Credit Disability Morbidity Table” in the Spring 2000 issue of *NewsDirect*, the National Association of Insurance Commissioners has taken up the development of new valuation standards for Credit Disability Insurance. Historically, valuation of Credit Disability has been based upon gross unearned premium reserves. With the development of methods detailed in this paper, it is possible to perform a valuation which does not rely upon gross premiums, but rather is based upon an underlying standard morbidity. This then allows regulators to assure that, regardless of the premium rates being charged, adequate reserves are being held to protect policyholders.

The Society of Actuaries has appointed the “Task Force to Recommend Morbidity Standards for Valuation of Credit Disability,” reporting to the SOA’s Committee for Health Benefit Systems Research and the Health Benefit Systems Practice Advancement Committee. It is anticipated that the task force will make a report to the NAIC Accident and Health Working Group of the Life and Health Actuarial Task Force at their December meeting in Boston. The task force will rely upon work previously performed by the Society in developing margins for valuation tables based upon stochastic measures.

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