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## Worksite Marketing — A Channel Whose Time Has Come?

by Mark L. Trencher

*Editor's Note: This article is reprinted with permission from the Conning Commentary, a publication of Conning & Company*

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.

**D**istribution 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 21<sup>st</sup> 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.

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## Chairperson's Corner Farewell...

by Carl E. Meier

**A**s 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



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## Chairperson's Corner

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meetings, articles in *NewsDirect*, and via special seminars.

For those of us with a background in direct marketing, the concept of "lifetime value of a customer" is a familiar one, but many others are just learning about it, as "customer relationship marketing" has become the "next big thing." You can expect other ideas and skills from direct marketing to gain more prominence in the coming years. That's part of the reason that our Section has scheduled a seminar entitled "Magic or Science: Quantitative Marketing for Actuaries" in November. If you'd like to learn more about database marketing and the predictive modeling techniques used by successful direct marketers, this seminar is an absolute must.

Even in what some might call a very

staid area, credit insurance, there have been developments in which our Section has recently played a valuable role. Besides informing Section members on a topic of interest to many of them, our publication of a paper entitled "A Credit Disability Morbidity Table" in a special supplement to the previous issue of this newsletter was an important first step in the lengthy process of getting the NAIC to adopt a new valuation standard for credit disability insurance.

The Section Council is continually looking for different ways to add to the value of Section membership. In the spring of 1999, we conducted our first ever product and channel survey to get information on how the different products life insurers are selling are being distributed. In the fall of last year, we

published the results of that survey in the *Product and Channel Directory*. This summer we put a searchable version of the *Directory* online at our Web page for anyone to use. Shortly, we will be gearing up for a second survey, which will update and expand the information available, and which we hope to have online by next spring.



Carl E. Meier, FSA



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*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 telecon-

ferences, 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?

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### Profiling the Market

*Worksite* — also known as voluntary payroll deduction — is a sales method that has reached workers since the 19<sup>th</sup> 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 esti-

mated \$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, Consecro (with four

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