
SOCIETY OF ACTUARIES

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**Collaborative Database Marketing**
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have the ability to customize the fields to meet your needs. The second step is to have your technology people or a data management company clean the data — correct name and addresses, and then populate it with outside information so you can profile your customers.

Based on that profile design, a collaborative service-based questionnaire should be distributed, to see which customers wish to "raise their hands," to ask for information and service. It is important to be sensitive to life cycle events that could trigger a desire on the customer's part to review their current choices. An in-house or outsourced team of database account verification representatives can call (having been invited) to discuss the questionnaire and choices available.

Normally, if we are working with an orphan database that hasn't had contact in five years, we can achieve 30% response on questionnaires and 10% new transaction purchases. The cost versus benefit analysis varies from company to company and product to product. In most cases outsourcing this work for a pilot makes the most sense unless you already have the service in place. Once the pilot is complete, it will be an easy decision to ramp up the process up or decide it doesn't work for you.

Also, since we are doing a large portion of the pre-qualification work an agent is paid to do, we often can charge them for these leads. In most cases, that charge varies between $10 and $25 per lead, and if the process is designed well they will consider this a bargain.

Benefits of a well-designed process include:

- Taking the drudgery out of the delivery of financial services
- Increasing productivity
- Reducing turnover using technology to get to know your customer one to one
- Efficiently using technology to build relationships with customers

Anticipating their expectations for the future will help position you to be the carrier or agency of choice with your present customers, and also will return to profitability the acquisition of new customers.

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**So What's New with the AOMR?**
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decided to eliminate the state of domicile plus disclosure. The feeling is that it would be very difficult to track all the state variations.

Larry Gorski suggested another possible approach. He pointed out that a regulator can use flexibility in accepting state of domicile. If a foreign company sells a negligible amount in Illinois, an opinion based on their state of domicile is acceptable. But if that company sells a lot in Illinois, and if their home state has a lower reserve requirement than an Illinois domestic, it will get a competitive advantage. In such a case, an opinion based on the state of filing would be required. Should there be some guidance on what additional considerations would affect which opinion would be acceptable? There will be a further report on this. There should be further discussion at the December meeting. We should all be following this to see what may happen.

If you have any opinions, let LHATF know. Contact Leslie Jones at the South Carolina Department of Insurance.

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# *Worksite Marketing*

***by Norman E. Hill***

The field of worksite marketing is growing at a fairly significant pace. More insurance companies are entering the field, and competition for agents and brokers with experience in these types of sales is becoming more intense. Worksite marketing combines features of traditional group and individual lines of business.

## Definitions

In worksite, individual life and health products are sold to employees with the help of employer endorsements. At the employer's place of business, insurer representatives attempt to enroll employees for voluntary coverage. Sometimes, agents perform the solicitation themselves. On other occasions, enrollment specialists handle the process. These latter specialists may be agents receiving commissions or salaried representatives. Usually, employees pay the entire premium, although some employer contributions are possible.

Products in worksite include:

- term life
- short-term disability
- dental
- cancer
- hospital indemnity

Because this coverage is often supplemental to base group coverage, premiums per policy are usually no more than $100 per month. Lately, there has been some interest in selling long-term-care coverage on a worksite basis. For ages under 65, premiums for this coverage are significantly less than for higher issue ages.

## Background

In the past, one complaint against the worksite concept was its inflexibility in employer situations. It was sometimes called a square peg in a round hole, i.e., an attempt to force individual products into group situations, while still paying higher rates of individual commissions to agents.

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One example of a complication involved rate increases on existing health policies. When these were billed to employers and employees, the paycheck reduction necessarily increased. This change was often not understood by employees. Sometimes, it led to loss of endorsement.

Similarly, individual lines traditionally have a fixed procedure for handling lapses. After a certain number of days from last premium payment, policies automatically lapse or convert to a non-forfeiture status. However, when employers remit premiums for numerous policies all at once, this often complicated the suspended lapse procedure.

Recent federal legislation has made worksite products more attractive. Employee coverage must now provide portability between employers. This characteristic fits right into individual products that are guaranteed renewable or non-cancelable (guaranteed premiums) to age 65 or for life. To employers, a key traditional advantage of group insurance no longer exists.

Also, some small employers have eliminated or restricted group employee benefits. This makes the idea of supplemental employee coverage, i.e. voluntary worksite coverage, more attractive.

## Retention

Each month, the employer receives a "list bill" from the insurer for participating employees. Today, this is usually in electronic form. The employer checks this bill against active employees to make any corrections. Premiums are then deducted against employee paychecks. One total premium for covered employees is sent to the insurer by the employer.

Each employer is considered a worksite "case." Although individual policies are involved, the approach of looking at all employer policies as a whole is a carryover from group practice.

When employees choose to drop coverage or terminate employment, agents from the insurer attempt to retain their coverage by converting to direct billing. Often, Preauthorized Check System (PAC) monthly is substituted for payroll deduction monthly. A similar effort often occurs if the insurer loses the employer endorsement. Although unlike traditional group, this loss does not automatically eliminate inforce policies, it often results in substantial lapses.

Except for long-term care, many of the above products terminate at age 65. Since most long-term-care coverage is based on lifetime premiums, if retirees continue premiums themselves, the post retirement billing basis may have to be switched to direct bill.

## Pricing and Administration

To some extent, administrative expenses for worksite products should be less than individually billed products. This is because of the mass billing process and economies of scale. However, for companies first entering the field, there will be start-up expenses for systems and related work to accommodate payroll deduction billing and suspended lapses. In addition to individual policy numbers, each policy must have an employer or case code.

Worksite commissions are usually comparable to traditional front-ended individual scales. At the same time, lapse experience for worksite products is usually worse than their individual counterparts. As a result, it should be kept in mind that a larger equivalent percentage of the worksite premium is needed to cover commissions than for individual products.

There is always the possibility of losing the employer's endorsement, and thus most covered employees. When government units are the employer, they often limit this endorsement to an annual premium bidding situation. As a result, some companies restrict worksite sales to government units. When front-end commissions are paid, companies reporting under GAAP accounting may choose not to defer them.

## Systems and Underwriting

In systems, there is the need for preparing list bills to employers. Premiums receipts from employers must be allocated to individual employee policies. Some employers may be irregular in sending in list bill premiums. Many worksite insurers believe that flexibility is necessary in designing the lapse and reinstatement routines of their administrative systems.

Individual underwriting is usually required in worksite situations. Because coverage is usually voluntary, the traditional group safeguard against employee anti-selection is missing. Underwriting is often on a simplified issue, short form application basis. For cases of sufficient size and employee participation, guaranteed issue may be considered.

Several traditional aspects of group underwriting remain under worksite. To be eligible for coverage, employees must be active at work, rather than laid-off or in disabled status. Also, although not all employees are likely to choose worksite coverage, their group was not formed specifically to obtain insurance.

Complications have arisen over dependent coverage. Since some underwriting is performed, there is a question as to whether employees can sign applications for their spouses and dependents.

## Conclusion

In conclusion, worksite marketing combines many considerations of both group and individual insurance. Due to changing economic conditions and statutory requirements, traditional differences between group and individual lines of business have diminished. The increasing popularity of worksite coverage represents one response to this convergence. It represents a growing field in our industry.

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