Session 87 PD, Is Group Life Insurance a Commodity?

Moderator:
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Presenters:
Michael Bailey
Mark Cornish
#87: Is Group Life Insurance a Commodity?

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Vice President & Actuary  
RGA U.S. Group Re  

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Agenda
- Introductions
- Overview of Group Life marketplace
- Guided panel discussion
- Q&A
Group Life Market Overview
Group Life Premium Growth by Quarter *(prev 3 yrs)*

Earned premium relatively flat
Group Life Premium Growth by Quarter (prev 5 yrs)

Growth is a zero sum game!

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Source: RGA Quarterly Earnings Summary: 2015Q4
It’s a tough market out there!

- Growth is flat
- Price pressure
  - “the race to zero”
  - Pressure to match benefits and lower rates on RFPs
  - Decreases needed to keep business at renewal
  - Experience rated cases written below claim cost
- Marketplace realities
  - Lack of loyalty / breaking of rate guarantees
  - Mid-market proposal activity is up, sales are not
  - Carriers going up or down market
It’s a tough market out there!

- **Benefit-creep**
  - Tremendous pressure on GI and plan maximums in small case market (<200 lives)
  - Richer spouse and dependent benefits
  - Age reductions liberalized or removed entirely
  - Top heavy plans

- **Underwriting challenges**
  - Pressure to relax open enrollment guidelines
  - Continued grandfathering on amounts where EOI is ‘stale’
  - Phantom/Ghost maximums
RGA 2016 Regional Underwriting Seminar

“What do you think about the Group Life market?”

Rates increasing | Leveled off | Hit bottom | Not hit bottom
--- | --- | --- | ---
Large Case

50 | 40 | 30 | 20 | 10 | 0
RGA 2016 Regional Underwriting Seminar

“What do you think about the Group Life market?”

- Rates increasing
- Leveled off
- Hit bottom
- Not hit bottom

Large Case
Small/Mid
Question: Is Group Life Insurance a Commodity?

Answer: YES!

Thanks for coming. See you at the lobby bar in five minutes…
So now what?

In a ‘dog eat dog’ market, options are limited:

- Give up and wear *Milk-Bone* underwear
- Designate group life insurance a ‘loss leader’
- Compete on price, but not on product
- Compete on product, but not on price
- Turn the market completely on its head with a radically new product feature or innovative delivery system

- De-commoditize the product by providing value outside of price & product
COMMODITY MINDSET

HI, I’M JOE, THE COMMODITY SALES MANAGER AT COMMODITIES INC.

OUR COMMODITY PRODUCTS ARE VERY COMPETITIVE. WE ALSO HAVE HUGE PRODUCTION CAPACITY!

WE OFFER COMMODITY PRICING FOR OUR STRATEGIC CUSTOMERS. WE WILL NOT BE BEATEN ON PRICE.

HOW ABOUT THAT!

EASY TIGER! LET ME FIRST DESCRIBE THE VALUE PROPOSITION OF COMMODITIES INC. NOT EVERYTHING IS ABOUT PRICE!

COMMODITIES HAVE VALUE?
A Blue Ribbon Panel of EB Brokers

- **Mike Bailey**, Aon Hewitt  
  *Senior Vice President*  
  *Absence, Disability & Life Management*  
  [michael.bailey@aonhewitt.com](mailto:michael.bailey@aonhewitt.com)

- **Mark Cornish**, Trion Group *(a Marsh & McLennan Agency LLC Company)*  
  *Practice Leader*  
  [Mark.Cornish@trion-mma.com](mailto:Mark.Cornish@trion-mma.com)
Q1: Is the market getting more commoditized? Or does it just seem like it?

- Unmistakably the market has become more commoditized.
- Even more so in the small case market.
- Low frequency product lends itself to being commoditized
- Driven by a number of factors:
  i. Flat market / mature market
  ii. Soft pricing
  iii. Erosion of margin every time a case changes hands
  iv. Lack of innovation
  v. Capacity vs. demand
Q2: What external influences also contribute to commoditization?

- The ACA has created a ripple effect into all employee benefits:
  - a catalyst in the adoption of technology
  - takes away ownership of healthcare from employer – which affects employer’s value proposition to employees (DC approach)
  - Multi-carrier exchanges predisposed to price-only decision making

- Millennials and technology: the Expedia mindset, filtering by price only
Q3: Aren’t brokers the cause of all this!

- Price isn’t the only thing, but it is usually the most important
- 1/3rd of the time, lowest rate doesn’t win
- The “ebb & flow” of insurers taking turns going after market share is very disruptive and a key driver of this
- We do our own underwriting and can tell what is a fair offer and what isn’t
  Ultimately, it is the plan sponsor’s decision.
- The question really is “how much more is a plan sponsor willing to pay for a particular brand/service/experience?” It may be enough to cover a small gap in price (4-5%), but not a tremendous one.
Q4: What are some ways to de-commoditize group life insurance using technology?

- Technology plays a very large role in de-commoditizing Group Life
- Several carriers have upped their game in this area
- On-line / real-time Evidence of Insurability (E of I) is an important example
- Other examples
  - Needs analysis & decision making tools
  - Mobile technology
- At some point, these technology ‘differentiators’ will eventually become table stakes
Q5: How has customer service been used as a differentiator in the group life space?

- Online E of I status reports
- Highly customized feel
- Other?
Q6: Do value-added services even matter?

Examples
- Travel assistance
- Funeral concierge
- ID theft protection
- EAP/FLMA admin & reporting
- Will preparation
- Financial wellness tools

- VAS are largely under-utilized, but experience shows that customers are happier if utilized.
Q7: What other suggestions do you have regarding ways to differentiate oneself in the group life market?

*Play to your strengths, leverage skills from other areas of company*

- **Health**: leverage clinical data/tools; wellness programs
- **Financial**: financial planning resources
Q8: When price is all the matters, what mitigating strategies are usually acceptable to a group?

- Shorter rate guarantee?
- Lower GI amount?
- Lower plan maximum?
- Limiting open enrollment?
Q9: What strategies work best to insulate in-force business from a commoditized market?

- Seeing longer rate guarantees on renewals
- Pro-active renewal strategies (mid-guarantee)
- Upselling or bundling opportunities?
- Better communication of services provided
Q10: What does the future hold: more or less commoditization? Challenges and opportunities?

- Decreasing duration of employment (<3 yrs) results in a customer base more interested in DC model or one that allows for more ownership by the employee.

- This “B-to-Me” trend represents a golden opportunity for insurers to establish brand awareness and loyalty at the end-consumer level.

- Technology is the key to this opportunity.
Additional thoughts: Escaping the Commodity Mindset

Recent article from The Kini Group outlines core ‘best practices’

Three principles:

1. “Don’t lower the price without changing the offer”

2. “Identify and regularly communicate every element of value delivered to your customer”

3. “Deliver options, not ultimatums”

https://thekinigroup.com/are-you-trapped-by-a-commodity-mindset-break-away-with-these-three-rules/
...questions from the floor...
Thank you to my panel members!

Now about that lobby bar…