

Life Insurance  
Alternative Distribution Channels  
Worksite Marketing in Selected Markets

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## **1. Introduction**

The subject of this paper is Worksite Marketing in various countries around the world.

The development of Worksite Marketing has been in response to a number of market drivers, which vary between the countries examined, but there are a few common themes, principally leveraging existing relationships, and the challenge of driving cost from the distribution chain.

The paper describes the models used in this channel of distribution, in the US, the Netherlands, and the UK, and draws conclusions on its applicability to the Indian market.

## 2. The US Market

### 2.1 Definition of Worksite Marketing

“The selling of voluntary, employee-paid, insurance and financial products at the workplace, paid through periodic payroll deductions”

*Source: Transamerica Worksite Marketing*

### 2.2 History

Worksite as we know it dates from the 1950s, and consisted of a few specialist companies, selling into existing corporate clients. The market started to develop in the 1980s, driven by falling margins in mainstream business, and increased costs of traditional career agency system (single company tied contracted agents). In this period many providers of insurance products started looking seriously at the workplace as a distribution channel.

The 1990s saw rapid growth in the number of providers, the range of product options, and the methods of distribution. In the last 10 years, there has been consolidation, with merger and acquisition activity, and some carriers leaving the market completely.

Despite this, the market has grown strongly in recent years.

Table 1. Sales Results from 1997-2002

<b>Year</b>	<b>New Business Sales Premium, in US\$ billions</b>
<b>1997</b>	<b>2.0</b>
<b>1998</b>	<b>2.2</b>
<b>1999</b>	<b>2.6</b>
<b>2000</b>	<b>3.1</b>
<b>2001</b>	<b>3.5</b>
<b>2002</b>	<b>4.0</b>

*Source: Eastbridge Consulting Group*

### 2.3 The Market today

The market has evolved and grown into a substantial niche in US insurance. Today there are around 120 players who consider themselves to be in worksite marketing. The market is rather fragmented, with many providers writing voluntary benefits as an adjunct to core group business, or as an accommodation to existing group clients. The extent of the fragmentation is shown in the following table, with the top two companies having over 36% of the market, and only four companies having market share of 5% or more.

Table 2: Top US providers, by New Business volume, 2002

Company	Worksite Sales, US\$million	Market share
American Family LAC	1100	27.3%
Unum Provident	361	9.0%
Colonial Life & Accident	258	6.4%
Allstate	200	5.0%
Carrier A #	195	4.8%
Carrier B #	175	4.3%
Guardian	109	2.7%
Fortis Benefits	92	2.3%
Transamerica/AEGON	88	2.2%
American Fidelity	83	2.1%

*Source: Eastbridge consulting group*

*# Name of company withheld to protect confidentiality*

The latest data available, for 2002, shows premiums from business in force of US\$11.6 billion. In the context of US life & pensions market, worksite represents around 2% of the total. Worksite has grown more rapidly than the market as a whole in the period from 1997 to 2002.

As a result of this activity, 35% of employed Americans own at least one voluntary benefit, and 64% of employers offer at least one voluntary benefit.

The likelihood of offering voluntary products varies by the size of the employer, with employers with 500-2000 employees being the most likely to offer (85.4%), and the smaller employers the least likely.

#### 2.4 Products in the US Market

The products offered via worksite have to fit with the needs of the workforce, and the employers. A key driver for a particular workforce will be the benefits provided by the employer. Generally worksite-marketing products will be complementary to the employer-paid benefits.

The single most important benefit, by premium, is life insurance. Life insurance per household averages three times income in the US. Financial planners typically recommend life insurance of 5 to 7 times income. Demand is driven by the gap between this perceived need, and the cover that individuals have from their own policies and their employer provided benefit.

Another key driver for the need for worksite products the inexorable rise of medical insurance costs for employers, for example:

- Hospital prices increased by 5.1% in 2002, the largest one-year increase since 1994
- Inpatient spending increased 6.8% in 2002
- Outpatient spending increased 14.6% in the same year.
- All of these increases were ahead of the rate of inflation in the economy as a whole.

*Source: Milliman USA Cost Index, Towers Perrin 2003 Health Care Cost Survey, Watson Wyatt World Wide Employer Survey of Trends in Health Care*

The impact on employers has been that medical benefits become increasingly more expensive, and therefore a strain on their global competitiveness. The reaction of employers to these rises has been to transfer cost onto employees. The mechanisms for doing so are typically increased deductibles; coinsurance, where the employee takes a part of the risk; and “co-pay” where the employee is asked to contribute towards the cost of the benefit. This naturally creates a demand for voluntary “gap-filling” products, to restore the employee to the level of coverage previously provided. Indeed, many employers actively encourage and promote these voluntary benefits, as a means of addressing the negative aspects of these cost-cutting measures.

A typical provider's range of worksite products might contain the following:

Table 3: Typical Worksite Products, US Market

Voluntary Product	Typical features and additional benefit riders	Order of importance, in terms of premium income
Universal Life	Guaranteed death benefit; Long-term care; Critical illness; Accidental death & disability; Waiver of premium; Family coverage.	1
Term Life	Critical illness; Accidental death & disability; Waiver of premium	6=
Short Term Disability Income	Employer-level choice of elimination periods; Employer-level choice of monthly benefit amount, up to 60% of salary.	4
Critical Illness, or Cancer only	Medical costs usually covered by employer. This product covers indirect non-medical costs, including living expenses, transportation, and family care.	6=
Accident	Coverage includes fractures, burns, cartilage & disc injuries, eye injuries, and many more. Family coverage usually available.	6=
Vision	Annual eye exam; lenses; frames; access to specialists via retail chain(s).	5
Dental	Preventative, basic, and major coverages. Optional deductibles, and waiting periods	9
Supplemental out-of-pocket Medical Expense insurance	Covers gaps in employers' cover, e.g., for deductibles.	2=
Limited Medical Benefit	Insures a schedule of benefits, with set monetary limits, including doctor visits, prescriptions, and hospital room and board. Access to preferred network of care providers, with large cost savings. Available in indemnity and coinsurance forms. A low cost option for the uninsured.	2=

## 2.5 Distribution & Enrolment

The important channels to market are as follows:

- Brokers specialising in worksite marketing, accounting for 36% of new premium. Typically a broker will package 2 or 3 providers' products together.
- Career agents, tied to a product provider, who produce 25% of new premium
- Employee Benefit brokers, 70% of whom now sell voluntary worksite programs.

Enrolment to programmes is achieved by a combination of the following methods:

- Leaflet drops: marketing brochures are placed at each employee's workstation or locker. This material invites employees to enrol by mail, telephone or Internet, or attend information sessions.
- Free phone numbers: these can be run by providers, brokers, or sub-contracted to specialists.
- Internet enrolment: for large campaigns, a specific site would be set up to enable employees to enrol and to select benefits.
- Group presentations: fronted by Human Resources personnel, and run by representatives of the broker, or the provider.
- Face-to-face meetings: employees are often allowed 20-30 minutes of paid time to meet with representatives of the broker or provider.

The experience from the market is clear – enrolment rates are highest where employers allow all of these methods to be used in combination, and particularly when face-to-face meetings are offered, on company time.

## 2.6 The Provider's Perspective

The keys to success in worksite marketing for the insurance company lie in four areas:

### **Strategic focus**

The provider has to adopt worksite as a distinct business line. Reporting lines, and the company structure, should be established so that the business has its own sales and bottom line accountability. Adequate investment should be made available, both financial and from executive management.

Common mistake: treating worksite as an extension of group insurance; using worksite in response to problems in other aspects of the business.

### **Distribution**

The provider must recognise that distribution is the key to worksite success. It is important to target distributors who can provide the required volumes, and design a proposition to address what is important to these organisations, be it compensation, product range, customer service, etc.

Common mistake: failing to have separate distribution strategy for worksite;

### **Product**

The range offered should be sufficient in depth and quality to enable the broker to source all products from a single provider. The core range should be life insurance, income protection, and medical expense coverage.

Common mistake: believing that good products will result in good sales;

### **Administration**

This can be regarded as a "price to play", and can weaken an otherwise strong distributor and product proposition. The three important service relationships are the Employer, the Insured, and the Distributor.

Common mistakes: treating worksite as individual insurance with simplified underwriting; offering worksite products to use up excess underwriting capacity.

## 2.7 The Employer's Perspective: a Case Study

The case study outlined in this section illustrates the rationale for an employer to introduce voluntary benefits, and the practical issues involved in implementation.

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**Company background:** this employer is a major retailer, with 170,000 employees, and outlets throughout the US. They have employees numbering well into five figures.

**Driver for change:** the company changed its eligibility rules for Core Benefits in March 2001, resulting in 10,000 associates losing entitlement to Core Benefits. The company needed a new program to offer this class of employee, which was cost neutral to the Company, namely a voluntary benefit package.

**First Steps:** the Company's insurance broker identified providers who could best match the Company's needs.

**Initial product range:** Medical, with low and high options; dental; term insurance with accident rider. This gave the associates who were losing coverage, the opportunity to replace the benefits. All voluntary benefits were to be paid for via payroll deduction.

**Launch:** The broker designed, and the product provider printed and distributed a marketing brochure to all outlets.

**Enrolment:** The broker engaged a call centre, which set up Interactive Voice Response enrolment with telephone operator backup. This call centre was also responsible for communicating enrolment data to the provider. First enrolments were carried out in July 2001. Participation was less than expected.

**Renewal:** Product range expanded to seven. All associates required to sign that they had received the brochure. Enrolment method expanded to include on-line sign up – 60% of enrolments were carried out on the web site.

**Second Renewal :** The broker engaged enrolment counsellors for one-to-one sessions to explain benefits. Employee take-up increased to 60%.

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### 3. The Netherlands

#### 3.1 Definition of Worksite Marketing

Worksite marketing in the Netherlands is life-oriented advice concept, where the employer approves the use of its name and facilities in order offer its employees access to advice and additional products.

#### 3.2 History

The evolution of worksite in the Netherlands over the past 10 years is encapsulated in the following table.

Table 4: Key features of WSM in the Netherlands, 1990-present

	1990s	Present
Drivers	Fiscal advantage driven	Few fiscal advantages; employer compliance with regulation
Product	Savings	Pensions
Strategy	Push	Pull
Visiting employee	At home	At employment

#### 3.3 The Market Today

The worksite market today benefits from three principal drivers.

##### **State provision of benefits**

The State is reducing its role in benefit provision. The “cradle to grave” approach favoured by successive governments is turning out to be unaffordable, as is the case in most European countries. A principal reason for this is a demographic shift to an ageing population, as the birth rate falls, and life expectancy increases. Recent moves are designed to bring State benefits into line with the ability of this and future

generations to pay, particularly with respect to pensions. One such move is an increase in the age at which benefits are payable, from 65 to 67.

### **Employer provision**

Employers are also finding that the pension arrangements they had instituted are becoming more expensive, due to increased longevity, low investment returns, and economic & competitive pressures. Their response generally has been to move from pension schemes based on final salary, to a calculation based on average salary, and to increase retirement ages.

### **Employer obligations**

Employers now have to take responsibility for educating employees about pension entitlements, on an individual basis. Compliance with these regulations provides an opportunity for worksite marketers to gain access to the employee at his or her workplace, with the employer's endorsement.

## 3.4 Products

The main product currently is pension, typically as an additional voluntary contribution to an existing employer sponsored plan, or as a stand-alone personal pension.

Other products and services include:

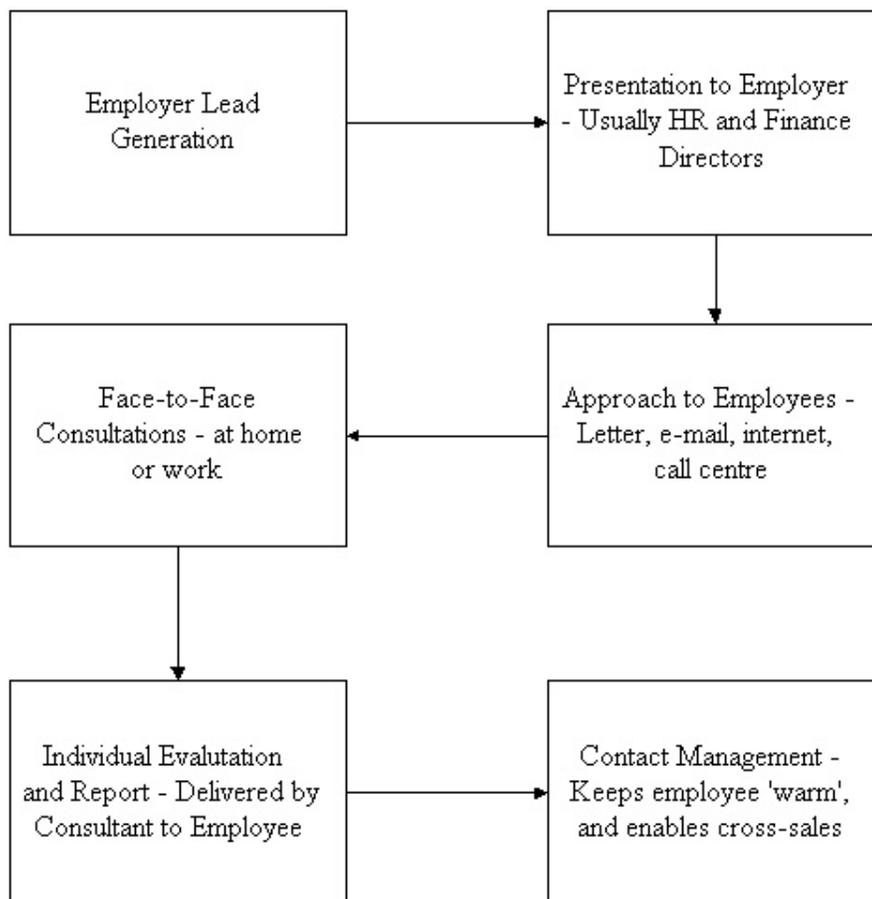
- Non-life insurance
- Life insurance, for savings and protection
- Mortgages
- Personal loans
- Healthcare insurance

### 3.5 Distribution & Available Market

The worksite market is closely related to the pension market, as explained above. Therefore the owners of pensions relationships with corporations have a strong position, enabling them to leverage those relationships to market to employees.

The bulk of insurers operate in the small to medium sized company market: insurers have 25% of the Dutch pensions market, with industry wide and large company funds dominating the other 75%. The former market comprises some 150,000 companies, with an average of 10 employees. (source: AEGON Netherlands).

Diagram 1: Typical Broker Sales Process



Experience from a major broker gives the following conversion rates:

- Pensions – 70% of employees who are offered an individual consultation will accept the offer. Of those 35% will take out a supplementary pensions product, leading to an overall conversion rate of 24.5%. Average premium is Euro825 per annum.
- Non-life insurance – Conversion rate is 5%, with average premium of Euro300 p.a.
- Mortgage – 6% of employees avail themselves of this service, generating premiums and fees of Euro1000.

Source: Meeus levensplan, Netherlands

### 3.6 Key Success Factors

The following factors are identified by insurers and brokers as important to success in worksite marketing in the Netherlands:

- Focus on advice – respecting the relationship between employer and employee, and the opportunity given to the broker means that the focus should be on financial education as opposed to sales.
- Face to face – the conversion rates are strongly correlated to the incidence of individual consultations
- Simplicity – simple products which are transparent in terms of conditions and costs. This also facilitates electronic completion and processing.
- Quality – knowledgeable consultants trained by experts in needs analysis.
- Employer contribution – employees are much more likely to contribute, or increase their contribution, if the employer is also paying towards a pension.

## 4. UK Market

### 4.1 Worksite Definition

Worksite in the UK market typically has four elements:

- voluntary financial transactions
- financial information
- financial education
- access to financial advice

The extent to which each of these elements is promoted differs between individual distributors and providers.

### 4.2 Today's Market

The UK worksite market is rather fragmented, and there is no comprehensive data source available. The key drivers of the market are:

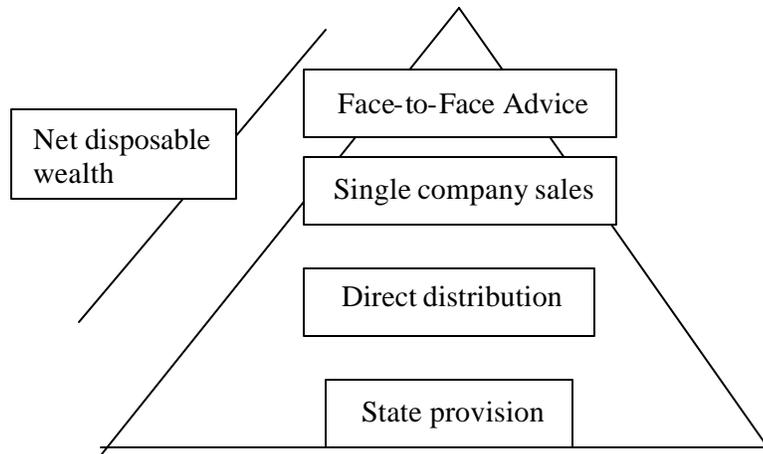
- Providers with large books of corporate “orphan” clients, that is, with no agent servicing the business, who seek to increase take-up of employer sponsored benefits, and a range of voluntary products
- The identified “savings gap”, that is industry estimates of the gap between amounts currently being saved for retirement, and the sums required to fund people’s expectations of retirement income. There is a high profile initiative by the UK Government to increase financial education in the workplace by enhancing the role of the employer in helping employees to bridge this savings gap.

- The costs of traditional means of product delivery, namely, via face-to-face sales, mass marketing, and branch-based sales. Margin pressure on insurance and pension products means that more cost effective channels are being addressed, of which worksite is a prime example.
- A trend away from defined benefit pension schemes to defined contribution. Often this results in a reduction in costs to the employer, and consequent loss of benefits to the employee.
- Reducing State support to pensioners, as the Government seeks to limit its exposure to the financial costs of an ageing population.
- The need for financial advice, but in a regulatory environment that imposes heavy burdens of responsibility on the adviser
- The market for employers making products available to their employees is already quite established with 25% of UK employers providing access to 5 or more voluntary products. (Source: Datamonitor 2003). Many of these are non-financial products. Currently less than 5% of financial product sales are transacted via the workplace. (source: Tillinghast).
- According to market research, 70% of employers prefer to provide worksite marketing via an intermediary. Employment sectors most likely to provide this service to employees are marketing/media/entertainment, technology, and professional services. Least likely are the public sector, and the transport and tourism industries (source Finaccord survey, May 2003).

### 4.3 Where does Worksite fit in the UK Market?

The current UK consumer market breaks down as shown in the following diagram, by wealth, and by access to financial products.

Diagram 2: UK consumer market, by channel of financial service delivery



Currently mass distribution is via retail banks and building societies. Their great strength lies in the relationship with their client bank. The other key relationship that consumers have is with their employment. The worksite is relatively untapped for differentiated mass distribution.

### 4.4 Key Factors in the Success of Worksite in the UK

The appeal of worksite lies in the following

- Higher completion rate than other “mass market” channels
- Employer endorsed proposition
- “closed” affinity group
- Limited competition
- Lower lapse rate
- Opportunity to utilise electronic means of distribution and service
- Lower acquisition, service and claim costs

## 4.5 Products

The most successful propositions for worksite marketing involve benefits which are complementary to employer-sponsored benefits. Thus additional voluntary contributions to company pension plans is the most common worksite benefit.

Flexible benefit provision is a key driver of voluntary benefit purchase in the UK. 19% of employees in the UK have access to some form of flexible benefits, whereby they can choose benefits which suit their particular circumstances, using a menu of benefits, and usually, an allocation of cash or credits. A typical flexible benefits programme will include core benefits, and a list of others that are elective. For example, an employee might have life cover of twice salary as a core benefit, and have the option to flex this to three or four times salary. Additionally other benefits like critical illness, accident, and partner life cover might be available on a completely voluntary basis, but at group rates that are significantly lower than those available to individuals. Crucially for providers' administrative costs, voluntary benefits purchased in this way are paid for by payroll deduction.

Finally, there is a wide range of voluntary benefits, from across the insurance, banking, and leisure arenas, which are made available to employees, under the auspices of an employer sponsored third party discount programme. At their most sophisticated, these programmes offer employees access to "best of breed" products, via search engines. All programmes will offer discounts on products, as a result both of the negotiating power of having a large distribution reach, and cost savings from remote sales and servicing. The employer involvement is limited to endorsement of the programme, and in some instances, paying a fee to the third party. All payments and servicing is handled by the third party, by phone or via the Internet.

Some key players in the third party worksite programme market:

- You@work: developed and marketed by Royal Sun alliance, and sold to Barclays Bank in late 2003. This service contains over 1500 products and services. Claims 2 million users, which would make it the most successful player in this market.

- Mymoneypal: developed and marketed by AEGON, focussing on financial education, access to advice, and a range of financial products.
- Bringme: offered by Lloyds TSB, and sells a range of financial and non-financial products.
- Benefits4me: owned by grassroots group, a specialist worksite provider, and offers mainly non-financial products.
- Staff Advantage: offers electrical goods, travel.
- Motivano – offers a range of financial and non-financial products.

## **5. Other Countries**

### 5.1 Australia

The key driver in the Australian market is the compulsory employer contribution to a retirement plan. This provides an opportunity for providers of the pension arrangement to cross sell to employees, typically life, health, disability and other investment products.

Distribution is generally through educational seminars, using primarily salaried sales representatives. Payroll deduction is not common.

### 5.2 South Africa

The market is largely driven by trade unions, and the need for affordable products for the low-end market. Retirement products are the mainstay, followed by cancer and critical illness. Payroll deduction is considered essential.

### 5.3 Canada

The market in Canada is less well developed than in the US. Company benefit plans are generally more comprehensive. In addition, the State provides free public healthcare with access for all.

One provider embraced worksite marketing, but closed its operation in 2003, having deemed its results to be less than satisfactory. Its proposition included on-site presentations and enrolment, premium by payroll deduction, and a range of critical illness and term insurance. Despite early success in the 50-300 employee sector, the operation was closed.

## **6. Conclusion**

Worksite marketing is not a new concept in the life and pensions arena. It is at its most developed in the US market, where premiums from business in force exceed US\$12 billion. This represents less than 3% of the US market, a share that is growing, but is still small part of the market nonetheless. This is an indicator of the potential that this channel has to offer.

The other markets examined are clearly some way behind the US, but there are demonstrable drivers which should ensure that worksite becomes well established.

For India, the key determinants in whether worksite marketing takes off will be

- The ownership of the corporate relationship.
- The development of employee benefits, which itself will be a function of competition in the labour market
- The development of the broker, which is a key part of the chain in other countries.