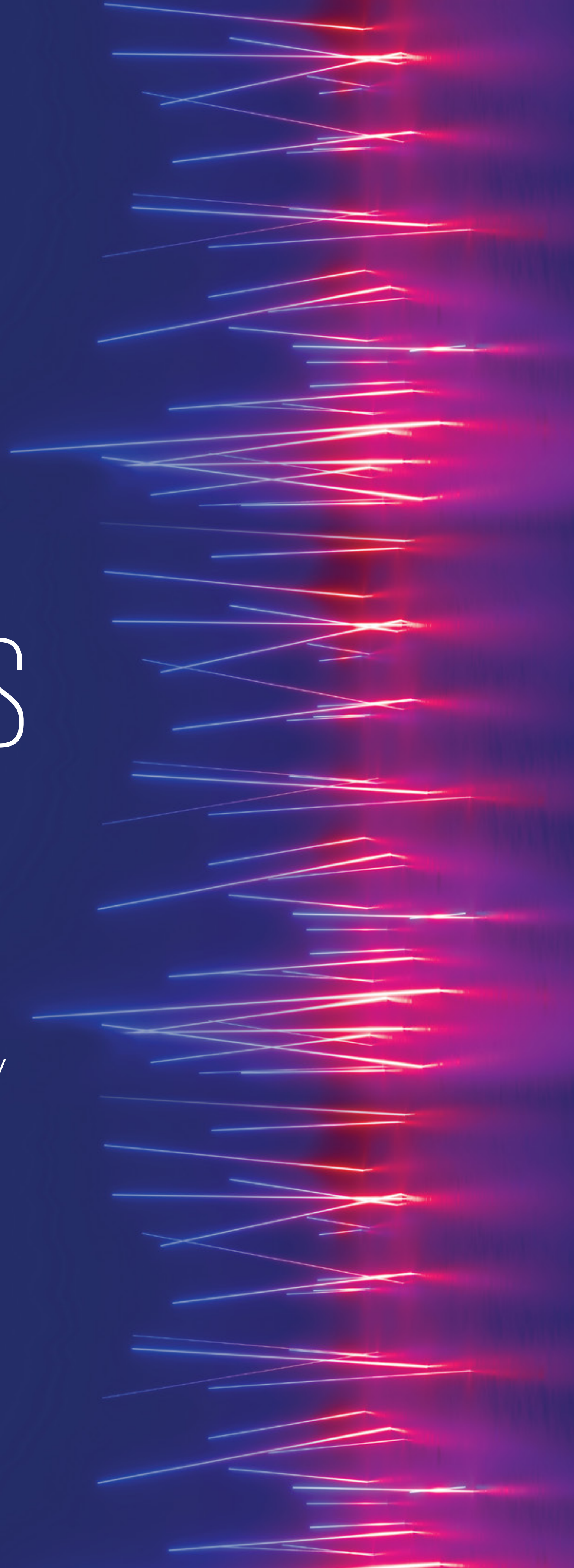
KPMG

Stretch benefits' boundaries

The new reality in group and voluntary benefits

Insurers' growth in the group and voluntary benefits markets hinges on managing emerging challenges with targeted capabilities in a highly digital world



An evolving industry

The group and voluntary benefits space is at an inflection point. We've seen change play out across the ecosystem at varying speeds for decades as consumer needs and preferences have changed, the business landscape has evolved, and new technology solutions have emerged across the benefits industry.

This rapid change will bring about a new paradigm in the group and voluntary benefits space. This paper focuses on the areas where we believe that change will play out, but we can't ignore the areas that will remain consistent within the industry.

— Distinct parts of the business, and the market, that will remain the same:
  – Just as they have for decades, employees will continue to rely on their employers to support health, financial, and lifestyle needs and motivations through benefits products.
  – Employee attraction, retention, and productivity will remain key motivating factors for employers offering benefits to their workforces, and expect that virtual working arrangements will allow for access to talent that may have been difficult to tap into.
  – In specific segments, notably large enterprises, intermediaries will continue to play an important role in helping employers to compare products and services, create benefits packages, and analyze and understand impacts to the workforce; however, the nature of those intermediaries is changing.

— Rapid change is occurring across the ecosystem:
  – Evolving health, financial, and lifestyle needs and expectations of employees are driving employers to rethink their benefits offerings as they seek to attract and retain a dynamic workforce.
  – An explosion of data sources and advances in analytics creating new opportunities for carriers to pursue growth and future relevance. This may be of particular benefit to carriers targeting small businesses that, in the past, could not be served profitably. Now, with more data and technology tools available, this market segment may become more accessible.
  – Historically low interest rates driving insurers to pursue rate-insensitive growth and investments through insurance operations and new business models.

> "We are seeing insurers in the group and voluntary benefits business, reevaluating their go-to-market strategies. Employees, employers and brokers each have new views on the benefits they think are critical to offer, and carriers are realizing that their business and operating models must be in synch with these views to maintain future relevance and improve their growth prospects."
>
> **Michael Adler,** *KPMG*
> *Principal, Finance Transformation*

These elements of stability and change across the industry are highlighted when we look at a sample of the key motivations and goals, or jobs to be done, of each constituent group within the industry. We outline key constituents across carriers, employers, participants, and brokers; however, we recognize that there are key nuances and categories within each broad group.

Jobs to Be Done

Carriers
— Increase premiums through improved take up rates and by penetrating new segments
— Improve profitability through better pricing, more accurate claims, and efficient operations
— Reduce customer turnover
— Protect and support participant

Employers
— Attract new talent and retain existing workforce
— Engage employees, enhance experience, and increase productivity
— Remain regulation-compliant
— Control costs and expenditures

Participants
— Protect themselves and their families across their health, wealth, and career
— Ensure stability and manage risks
— Maximize benefit value and minimize costs
— Experience seamless interactions

Distributors
— Maintain relevance and market strength
— Distribute more products and grow commissions
— Serve as partners to employers on program design and carriers on product development
— Enhance relationships across the ecosystem

Aside from the vast array of motivations present within the industry, it is important to note that some jobs to be done across constituent groups are supportive of one another, and some are in direct conflict. For example, carriers working to protect and support participants and participants seeking protection and security from their employers are clearly in accord; however, participants hoping to maximize coverage and value is, at face value, in opposition to employers' needs to reduce costs and carriers' desires to increase profitability. These areas of alignment and conflict present opportunity for forward-looking carriers to think creatively about how and where they can serve as partners to each other constituent group through innovative new products, services, and experiences, while satisfying their own jobs to be done.

The fundamental changes taking root across the group and voluntary benefits landscape are compelling insurers to examine their business and operating models to address these new demands. The models must address the realities that are now emerging in the physical, digital, and virtual worlds.

© 2020 KPMG Advisory, a Belgian BV/SRL and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Our insurance professionals have studied current conditions and believe the implications of those conditions require that tomorrow's successful benefits providers position their business along five focus areas for future relevance and growth:

Understand evolving customer needs and expectations

Leverage interactions, relationships, and external data sources to understand changes playing out among business customers and their employees, and draw actionable, targeted insights across customer groups.

Invest in pursuit of leading market positions

Possess the ability and the willingness to make significant strategic and financial decisions across lines of business in pursuit of leadership positions, growth, and capability-specific acquisitions and divestitures aligned to strategic goals.

Deliver products and experiences that meet emerging expectations

Deliver products, services, and experiences that enable employers to meet goals across employee attraction, retention, and productivity, and support employees' complex financial and health pressures.

Master an omnichannel approach to distribution

Understand and leverage growing opportunities to reach customers through digital platforms, traditional broker channels, and direct offerings in order to improve customer relationships, maintain relevance, and meet changing capabilities and expectations of employers.

Modernize operations across the value chain

Drive operational efficiency, enhance customer interactions, and improve business decisions in areas like segmentation, product offerings, and claims decisions through technology-enabled solutions and leveraging data as an asset across operations.

"Basic" doesn't cut it anymore

A basic benefits package? It's essentially nonexistent these days. The reality is that employers face growing expectations from their employees for a broader variety of benefits packages; employers are turning to insurers for a wider array of products and services.

Simply put, offerings that at one time were considered "nontraditional" benefits now are effectively necessary for employers to retain and recruit an increasingly multi-generational workforce. Carriers that don't—won't—make the investment required to truly understand their changing customers and offer the benefits options demanded by today's employers may find that they are in a disadvantageous position.

Consider this illustration of the array of products and services that employers must weigh during benefits decisions. Carriers must ask themselves: where are we focused on helping employers and employees? Where are we willing to let other providers step in? How do our business and operating models fit in this new environment?

There are five generations in today's workforce, each with distinct benefits needs.

- ***Silent Generation—born before 1946***
- ***Baby Boomers—born between 1946 and 1964***
- ***Generation X—born between 1965 and 1976***
- ***Generation Y, or Millennials—born between 1977 and 1997***
- ***Generation Z—born after 1997***

Below, we explore how the distribution of generations through the workforce is evolving.

© 2020 KPMG Advisory, a Belgian BV/SRL and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

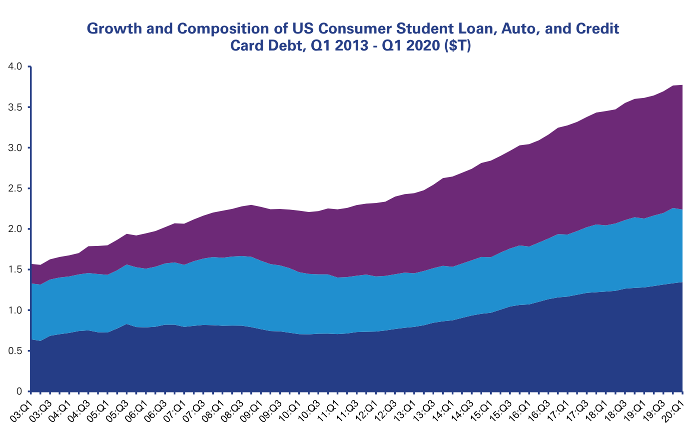
Trends and impacts

In our work with scores of benefits carriers and research across employers and employee populations, we increasingly see evidence that powerful accelerators of change are reshaping the industry:

— Employee needs and expectations continue to evolve quickly, often outpacing offerings of many employers and the product offerings of insurers. Think of a variety of benefits such as paid medical and family leave, genetic testing, student-loan assistance, financial-planning/retirement-savings advice, family planning and fertility support, pet insurance, career coaching, along with medical cost coverage, group life policies, dental, and vision.

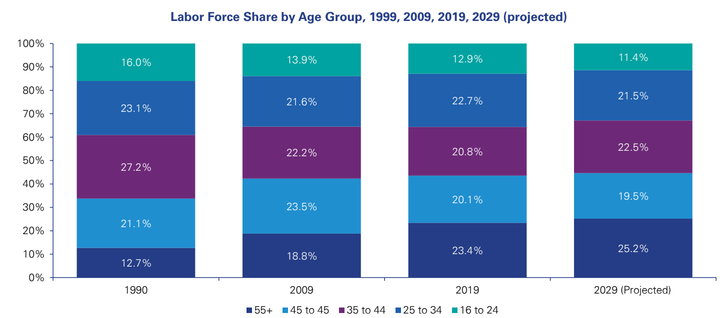
— From 2009 to 2019, workers' earnings rose by 26 percent, while health deductibles soared by 162 percent and premiums by 54 percent[1]. These shifting cost dynamics put significant pressure on benefits decisions and ultimately lead to employers shifting more costs to employees, and employees bringing more scrutiny to benefits decisions.

— The level and nature of debt and lack of savings among consumers has evolved dramatically over the past 15 years. Today, over 60 percent of working Americans under 44 have student loans, and over 9 percent of credit card debt among Americans aged 19–29 is 90+ days delinquent[2].



Sources: Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit, Q1 2020

— The multigenerational workforce is adding uncustomary pressures to employers and carriers by demanding a diverse set of benefits.



Sources: US Bureau of Labor Statistics Employment Projections

Excerpt of an interview by KPMG with James Reid, MetLife's Head of Global Employee Benefits:

"With five generations now functioning in the workplace, understanding what employees are looking for when it comes to employee benefits is paramount in tailoring solutions that can help with what they want. This also benefits employers from the standpoint of attracting and retaining talent. For example, in (a recent MetLife) study, 76 percent of employees who are offered financial wellness programs are satisfied with their benefits. What that means is that, going forward, we can focus on financial wellness benefits and programs that help to inspire greater productivity and loyalty from employees."

— Education of employees and employers around products and services offered by carriers is becoming increasingly important, especially as financial pressures drive each to take a closer eye to offering and enrolling in new products. Today we see an increasing gap between product cost and understanding, outlined below:

— The competitive landscape in which carriers operate is in a constant state of evolution as incumbent carriers enter and exit lines of business through acquisitions and divestitures and new start-ups and insurtechs enter the space with customer-focused products and experiences.

— Managing the dynamics of new distribution mechanisms and platforms has proven challenging for carriers. They must balance the need to maintain and strengthen relationships with traditional broker partners while understanding the new landscape of digital benefits administration and broker platforms that have received nearly billions in funding in recent years.

— Historically low interest rates continue to negatively impact growth opportunities, adding urgency to build the bottom line through the combination of cost-effective operations and a suite of new offerings.

1. 2019 Employer Health Benefits Survey (KFF [Sep 25, 2019]).
2. Center for Microeconomic Data. (2020, May). Quarterly Report on Household Debt and Credit Q1 2020. Retrieved August/September, 2020, from https://www.newyorkfed.org/microeconomics/hhdc.html

© 2020 KPMG Advisory, a Belgian BV/SRL and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

A new landscape is taking shape

Tomorrow's benefit's industry almost certainly will change. The degree of change, we believe, will depend on whether carriers are willing to embrace a culture that accepts a new reality in their business.

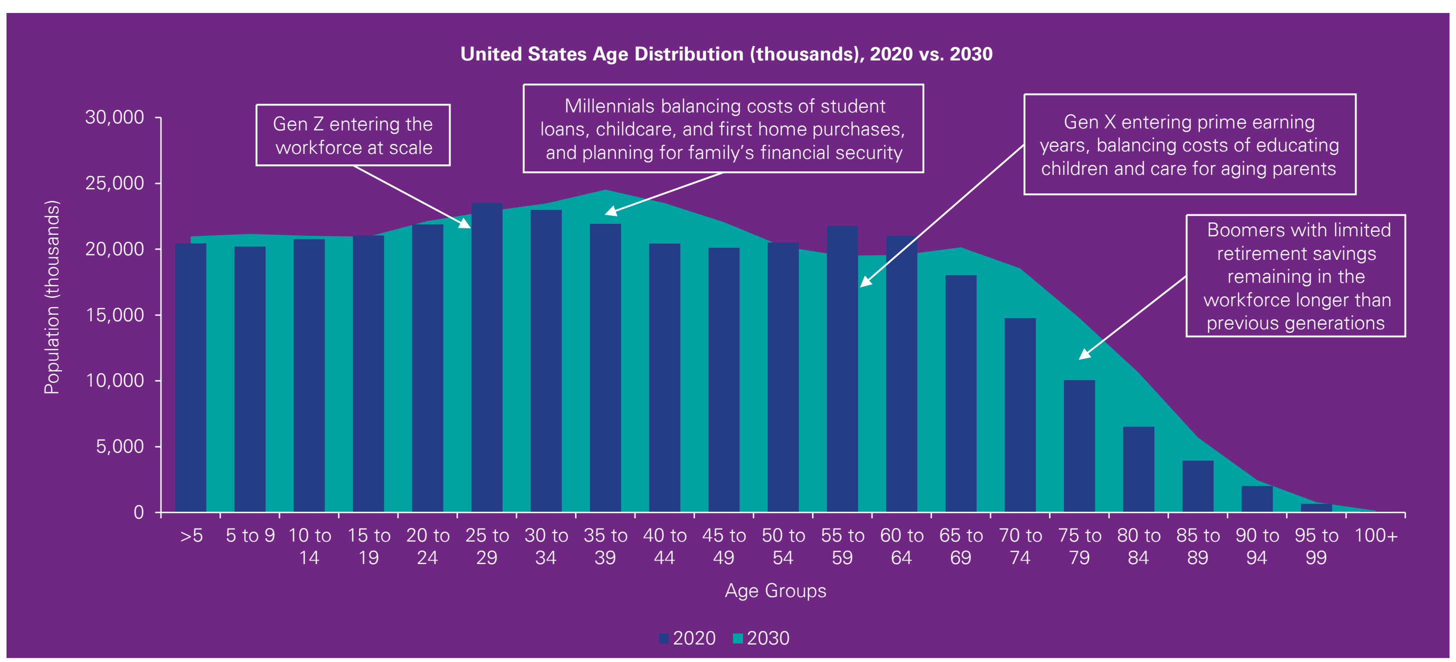
The expectations of participants will continue to grow in complexity.

Given that five generations now populate the workplace, and employers will need to meet much more diverse demands of the workers, we expect benefit offerings will need to satisfy employees who want to merge their personal and work lives in a more meaningful way.

Further, we expect that the change associated with expectations relating to personalization and diversity of needs within the workforce is only going to accelerate, meaning carriers and employers are going to need to work much more closely if those demands are going to be met. This will be exacerbated as the generational makeup of the workforce evolves over the next decade. Examples, highlighted in the below graphic, include Gen Z entering the workforce at scale with strong expectations associated with social issues and entrepreneurship, Millennials balancing student debt against the costs and pressures of building families, Gen X entering prime earning years while caring for aging parents, and Boomers' limited retirement savings requiring that they stay in the workforce longer.

Excerpt of an interview by KPMG with Steve Swad, BenefitFocus' President and CEO:

"People need help with learning about their needs and making sure they find the right products to cater to those needs. Traditionally it was just your life insurance and maybe a little dental insurance. However, now it is about looking at income data, claims data, and health data and making a recommendation about purchasing a gap product."



Sources: US Census population projections, KPMG Analysis

Carriers' pillars to address customer needs

As much as carriers say they understand the need to listen to customers and provide better interactions, our experience in this area raises some doubts. Carriers seeking to create more relevant group products and experiences may find the results of our recent group benefits customer research useful as they carry out their reevaluation of business and operating models. Our team identified four pillars of needs and expectations the modern employer when considering benefits carriers, each of which involve the development of closer relationships, improved education, and the creation of customized plans.

The job will not be easy, but change efforts begin with focus and commitment on building new approaches to challenges rather seeking ways to fight the imperative.

Excerpt of an interview by KPMG with James Reid, MetLife's Head of Global Employee Benefits:

"I think customers—both our clients and their employees—have become savvier and more educated about the programs available to them and what's in the marketplace. This means that we must continually adapt, differentiate and be creative about providing the solutions they need."

MAKE IT EASY	KNOW ME	VALUE ME	PROTECT MY WORKFORCE
My best experiences are my minimum expectations, but they are fragmented	*Understand my business and the unique dynamics and values of my workforce*	*Reward me for being a loyal customer with financial and value-based incentives*	*Understand my workforce across health and financial motivations*
Help me navigate my options as I create benefits packages for my employees	*Help me identify coverage gaps and new opportunities for my employees*	*Offer tools and services that support my business and my workforce*	*Tailor products to my workforce's needs, wants, and goals*
Integrate seamlessly with my HR software	*Understand and support my motivations for offering benefits*	*Prove that you can help me achieve my goals*	*Partner with leading service providers for differentiated offerings*
Simplify enrollment and make renewals easy and transparent	*Help me balance leading employee experiences against expenditures*	*Help me attract new employees, retain my workforce, and improve productivity*	*Make self-service and claims a seamless experience*

Changing economic and workforce dynamics will shift employer mindsets, creating opportunities for carriers

Employers are shifting from growth and efficiency mindsets to preservation and resilience. We've seen this play out in a number of ways, including headcount reductions, reduced or deferred technology and consulting spend, changing physical footprints across office spaces, and altering contributions to benefits programs. The confluence of these changes will have a significant impact on the opportunity available to benefits carriers. Success in this environment will require value-driven products and services that serve real needs and motivations for employers and employees.

© 2020 KPMG Advisory, a Belgian BV/SRL and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Expect that incumbents, start-ups, and adjacent enterprises will drive major shifts in the competitive landscape.

Until recently, shifts across the competitive environment in the group and voluntary benefits market have largely been driven by incumbent carriers making large-scale acquisitions and divestitures across their books of business. We expect these deals to accelerate in the years to come as carriers seek to align their product offerings to their strategic capabilities and enterprise goals, but we also expect significant change to be driven by partnerships and/or joint ventures. In addition, carriers can consider relationships with start-ups and adjacent health, finance, and technology enterprises that are able to seize on emerging opportunities in the market.

We anticipate change to play out in three key areas:

— **Incumbent-driven**, as traditional life and disability group carriers seek to expand by acquiring scale and capabilities across voluntary product lines. At the same time, individual and voluntary carriers will seek to strengthen customer relationships through offering traditional group products, and both sides will acquire and partner in order to meet emerging customer expectations

— **Start-up-driven**, as new firms enter the space through innovative products across key areas like supplemental health and income protection, and through services aligned to emerging customer expectations like student loan support, financial wellness, and mental and emotional support

— **Adjacent enterprise-driven**, such as technology giants or investment managers leveraging vast customer insights and digital capabilities to offer tailored products to enterprise clients

Excerpt of an interview by KPMG with Fred Crawford, Aflac's COO, discussing the importance of technology and innovation:

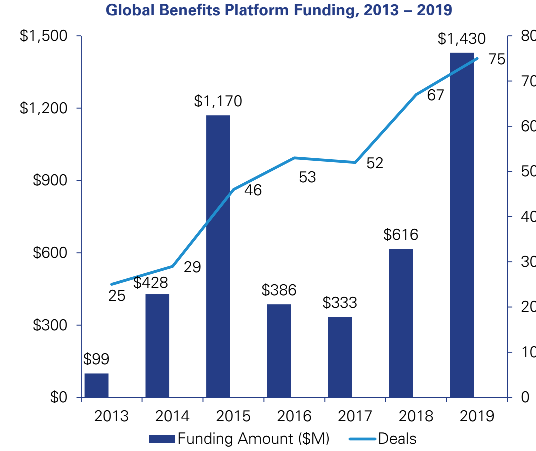
"I don't think you even have a choice in the matter. We're going to have to be an innovation and digital technology leader in our space, but digital capability means nothing without data analytics and process improvement tied to it."

Changes across the distribution landscape will accelerate as new and legacy models collide.

Perhaps nowhere in the group and voluntary benefits industry is the idea of key aspects staying the same and others changing dramatically more apparent than in distribution and servicing of products and services. Despite years of predictions that they would be disintermediated, brokers remain a key piece of the industry dynamic. They have responded to external threats through becoming more powerful across the market via consolidation, and more valuable to customers through service expansion.

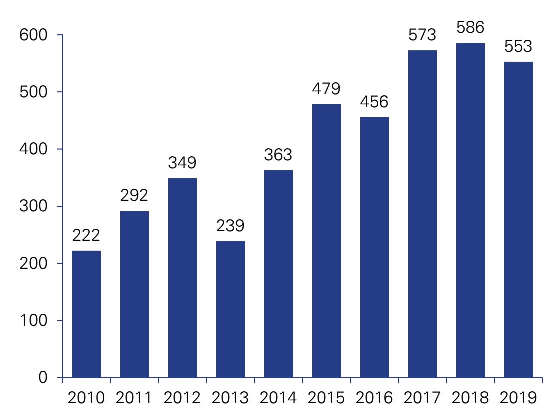
At the same time, a new breed of benefits administration platforms have emerged (benefiting both carriers and brokers), using seamless interactions and partnering with emerging benefits solutions aligned to emerging needs in order to rapidly address changing customer expectations.

Global Benefits Platform Funding, 2013 – 2019



Source: CB Insights, KPMG Analysis

Number of Broker M&A Deals, U.S. 2010– 2019



Source: S&P Global

Excerpt of an interview by KPMG with Steve Swad, Benefitfocus' President and CEO, referring to how he considers partnership with carriers:

"We think about how we can help them get their products to the right people. And, when we can do that, we will be able to sell a lot more products. By using our platform, we can increase our participation rates and get the right products to the right people. With our platform, we know how many products people have, what kind of products people have, and who should be buying a gap product. Through the platform, we can reach that person directly."

Insurance carriers can grow globally, provided they know the landscape

Opportunities for growth are not limited by geographic borders, although it is vital that insurers have a deep appreciation for the macroeconomic, demographic, and regulatory factors that delineate differences among global regions.

Excerpt of an interview by KPMG with James Reid, MetLife's Head of Global Employee Benefits:

"From an employer perspective, there are similar needs that are starting to emerge. We've seen increased interest across regions from a health and wellness perspective, however there are nuances, as healthcare delivery and needs are very much local and can differ from region to region. From our customers we've seen an increased interest in data analytics, reporting, as well as benefits and value-added services around health and wellness. The greatest divergence is related to the definition of voluntary benefits, capabilities, and take up rates."

Here, we take a look at key indicators among several global regions:

Mexico

— Significant informal workforce largely inaccessible through traditional worksite channels
— Large-scale smartphone adoption provides digital engagement opportunities
— Government control over traditional benefits increases opportunity to provide guidance on financial wellness and savings

U.K.

— Highly regulated insurance markets; government provides healthcare, and employer pensions are mandated
— Broker-dominated group insurance market drives opportunity to strengthen relationships through broker-enablement tools
— Emerging opportunities in voluntary health and wellness

Brazil

— Highly regulated insurance industry drives opportunity to differentiate via health, wellness, and supplemental
— Broker-dominated group insurance market drives opportunity to strengthen relationships through broker-enablement tools
— Large informal workforce drives need for flexible benefits

Chile

— Innovation and technology are cultural priorities, driving opportunity to differentiate via digital and offer emerging products and services.
— Aging population and rising healthcare costs driving opportunity for supplemental
— Government control over benefits increases opportunity for financial wellness

Japan

— Products and services that leverage data gathered through digital interactions
— Aging population and low marriage rates create differentiated product needs among population
— Agents dominate distribution, driving opportunity to deliver agent-enablement tools and services

Australia

— Federally regulated and managed retirement and healthcare benefits plans drive need to differentiate via voluntary products and services
— Strong interest in health and financial wellness
— Aging population provides opportunity to address emerging retirement and health needs

UAE

— Regulated insurance and retirement benefit plans
— Opportunity to deliver digital self-services tools and experiences
— Expat-driven population creates opportunities in voluntary products and health and financial wellness.
— Broker-dominated group insurance market

Kuwait

— National population in the private and public sector are covered by the government pension fund
— Most companies rely on the government health care scheme for their employees
— One area of opportunity is travel insurance as the national and expat population of Kuwait travel extensively

Qatar

— Relatively new regulated insurance market with few life insurance products available
— Emerging opportunities in voluntary products and services
— Strong interest in health and financial wellness
— Innovation and technology are emerging priorities
— Agents/brokers are key distribution channel

Opportunities are as significant as the challenges

Ambitious, forward-looking, and strategically minded benefits carriers almost certainly will stand apart from their peers in this continuously developing environment. They will need to address the innovation imperative that has emerged since the onset of the spread of the COVID-19 virus, and they must have a "digital-first; digital-now" mindset.

KPMG insurance leaders, working with insurance specialists on our innovation team, have identified five areas where carriers can better align their business to the future market environment.

1. Understand increasingly diverse and complex employee and employer needs and expectations.

The status quo of limited access to and understanding of both employees and employers will be a significant inhibitor in tomorrow's environment, as customers expect more personalization and value. Carriers will increase the likelihood of profitably growing their business if they focus on developing a much deeper understanding of their customers' needs, expectations, and motivations.

a. Use specialized tools and methods that establish direct employee/employer connections and interactions through new services and platforms, including education and advice tailored to specific health and financial needs

b. Closely monitor generational, economic, and health trends across key consumer segments in order to understand goals, motivations, and pressures impacting benefit enrollment decisions

c. Segment employers based on distinct value structures, motivations for offering employee benefits, workforce makeup, industry dynamics, employer size and location, and more

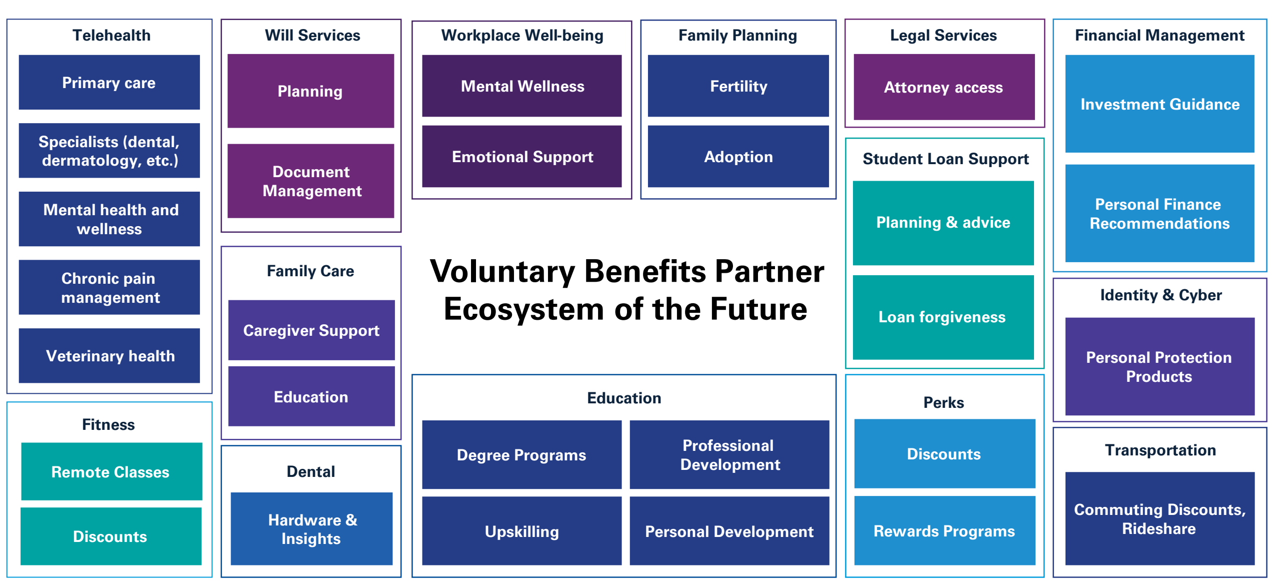
2. Modernize products, services, distribution challenges, and experiences in line with employer motivations and employee needs and expectations.

Carriers must ratchet up efforts to more accurately align product and service offerings to emerging needs and demands. We already see significant shifts in growth prospects and profitability challenges playing out in core products—this will only accelerate as new, customer-focused offerings enter and scale in the market.

a. Review existing product portfolios for future relevance based on key customer insights

b. Offer products and services aligned to employer motivations and employee expectations

c. Partner with digitally enabled benefit offerings aligned to emerging needs and expectations. Below, we highlight several areas where we see opportunity for carriers to partner with leading technology and experience providers in order to address emerging needs among customers:



3. Be willing to make investments and divestitures in pursuit of growth.

Now, more than ever, a carrier that expects to win needs to provide broader empowerment to mergers and acquisitions teams to explore more opportunities to help achieve strategic priorities. Tomorrow's winners will possess the willingness and the capabilities required to make bold, strategic investments and divestitures across their books of business in pursuit of leading positions in the market. We expect that many carriers' profiles will change in the coming months and years, as some will jettison business lines in order to specialize in just a few products and service, while others will broaden their offerings.

a. In a market shaped by M&A, carriers must understand their competitive landscape and identify opportunities to acquire books of business that support their pursuit of leading positions in the market.

b. Beyond growth, carriers should understand the potential to invest and acquire for capabilities like digital technology, customer access, and services, through both insurance businesses and technology companies.

c. In a changing environment, carriers must be willing to divest businesses that no longer support the pursuit of their winning ambition in the market.

Excerpt of an interview by KPMG with Fred Crawford, Aflac's COO, referring to Aflac's approach to M&A in this market:

"What we have elected to do is a buy-to-build strategy. We look to acquire strong insurance platforms with excellent administrative capabilities, product knowledge, advisory, and more, up to the point of distribution. We then bring acquisitions onto our existing distribution platform, including brand, product promotion and marketing, and access to our large distribution footprint and customer base in the US."

4. Drive insights and operational improvements across the value chain through investments in modern, technology-enabled operating models.

We've seen significant advancement of technology solutions that both enhance the customer experience and enable operational improvements. For example, an explosion of data sources and advances in analytics have made it possible to address risks and segment employee groups at much more granular level, creating an opportunity to evolve the way that we think of groups in the context of benefits. Investment in (and training to operate) digital across the insurance value chain, is no longer debatable.

a. Tomorrow's winners will place much more emphasis on leveraging data and analytics across business decisions than today's norms.

b. Improving efficiency and reducing costs through streamlined operations and automation will drive opportunity for rate-insensitive growth and profitability.

c. Partnering and integrating with leading solutions across the value chain will allow carriers to accelerate technology capabilities without significant up-front investment.

We see a number of common challenges among group and voluntary carriers across the insurance value chain. Today, we are witnessing the emergence of solutions that address these challenges and allow carriers to pursue operational excellence and deep insights.

	Product Development	Marketing	Distribution	Underwriting	Policy Admin & Service	Claims
Challenges	— Limited customer access — Enrollment process prohibits testing — Legacy technology	— Limited customer access hinders segmentation — B2B2B2C process creates multiple audiences	— Reliant on partners — Different markets expect different channels — Open enrollment limits opportunity	— Data access & quality — Pricing pressure within market — Limited population insights	— Incompatible systems across stakeholders — Legacy technology — Manual processes	— Malingering claims — Limited fraud insights — Long process with low-transparency
Solutions	— Partner ecosystem of products and services that meet new needs — Direct interactions for better customer access	— Third-party data and insights for improved segmentation — Life-event prediction and product recommendation	— Integration with benefits administration platforms — Experimenting with direct capabilities	— APIs for data access — Advanced risk pooling within populations — Increased use of automation	— 24/7 self-service — Modular product and policy infrastructure — Integrations via third-party technology	— Predictive claim processing — Proactive fraud identification and prevention — Simplified processes

5. Pursue omnichannel distribution capabilities.

Technologies that can profoundly alter how products and services are delivered to customers are readily available, but the question persists about whether carriers will commit to leveraging new distribution-channels and capabilities… even when COVID-19 is brought under control. COVID-19 unquestionably accelerated the adoption of powerful technologies, but will they remain in use in the future? Data shows that 1 in 4 employers would consider working directly with carriers if given the opportunity (LIMRA Workplace Benefits Resource Guide 2019[1]); however, few carriers are exploring this channel today. The LIMRA finding gives rise to the thorny question about possible changes in the working relationships between carriers and brokers, a situation that will continue to present challenges into the future.

a. Integrate with leading digital benefits administration platforms. The steady growth in digital platforms means that carriers are positively reacting to customers' demands for personalized experiences. We believe carriers continue on this path even as they solidify relationship with brokers as critical channels.

b. Pursue opportunities for direct distribution to employers and employees: Carrier will need to seize opportunities to go direct without challenging existing channel partners—through new customer segments, products, and services.

c. Foster strong relationships with traditional broker channels. Brokers will continue to be vital to the industry, despite much discussion recently about their demise.

Omnichannel Distribution Considerations

Brokers	Third-Party Platforms	Direct Channels
— Where can I create opportunities to strengthen relationships with my broker partners?	— How can I best understand and address a rapidly growing and evolving platform landscape?	— What is my winning ambition for leveraging direct channels (ex. growth, customer access, efficiency, etc.)?
— How does broker consolidation and service expansion impact my business?	— Which platforms are most relevant to key customer segments? Which products are best-suited for platform channels?	— Which products and segments should I consider for direct channels?
— How can I work with brokers to better understand my customers and inform product and service decisions?	— How can I seamlessly integrate my products across digital platforms?	— How can I avoid conflict with existing distribution partners while maximizing value?

[1] "Workplace Benefits Resource Guide,'' LIMRA, February 14, 2019

Insights from Key Executive Leaders

In separate interviews conducted midway through 2020, KPMG asked three senior insurance executives in the Group and Voluntary Benefits segment of the industry to describe their perspectives on the market.

We spoke with Fred Crawford, Aflac Inc.'s Chief Operating Office; James Reid, MetLife's Head of Global Employee Benefits; and Steve Swad, Chief Executive Officer at Benefitfocus.

Each executive delved into the impact on the group and voluntary benefits industry of disparate developments in such areas as data and analytics, digital transformation, and changing customer needs and expectations.

A single thread, however, ran through their responses: The importance of carriers effectively guiding both employees and employers to make their best choices among the multitude of options that currently populate the rapidly evolving universe of group and voluntary benefits.

Here is an edited summary of some of the comments from Crawford, Reid, and Swad:

? Which of the recent developments in the benefits industry have had the most significant impact on all parties—employees, employers, carriers, and distributors?

Reid:

I think technology has changed the way we can conduct business, and nowhere has that been more evident than in what has been happening over the last few months (during the COVID-19 pandemic). Employee benefits providers have a stake in the health and well-being of their insureds. The benefits we provide offer security for our customers, and the opportunity for us to help our customers navigate life's uncertainties.

Crawford:

I believe it's … the employer trying to find ways to add value for their employees where possible. Employers realize they have to shift more of the financial burden of an employer-paid program to the employee in many cases. The most straightforward example of that would be a move towards high deductible health plans where the plan is typically less expensive and better for a younger, healthier employee, but needs to be supplemented. We have seen a significant move among traditional group carriers to expand into the supplemental benefits area. This has been going on for a number of years.

As such, we're seeing the traditional true group players leveraging their position with the employer to bundle supplemental products with their group offerings. There is a lot of interest in the marketplace among those same players to go down market into the less-penetrated small-business arena.

Swad:

The introduction of high deductible health plans has led to a shift in the burden of insurance and risk from employer to employee … That change places importance on education … People need help with learning about their needs and making sure they find the right products to cater to those needs. Traditionally it was just your life insurance and maybe a little dental insurance. However, now it is about looking at income data, claims data, and health data and making a recommendation about purchasing a gap product. This situation, in turn, has fueled a lot of what is going on in the group benefits space. The benefits administration solution has moved from one that was more simple administration to the current role, geared toward really driving financial benefits for employees and a more affordable solution for employers.

© 2020 KPMG Advisory, a Belgian BV/SRL and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Looking ahead, what is the next biggest change for this industry?

Reid:

It will be in the further use of technologies (to) give individuals more data about existing risks in their environment, health, and lifestyles, leading to more informed decisions about the benefits they have or may need—including supplemental and voluntary benefits.

These greater insights into our customers and their employees can drive more personalized product offerings by insurers. According to the Met Life 2020 Employee Benefits Trends study, 67 percent of employees stated their employer provided the flexibility required to manage both work and life. This flexibility becomes even more important as technology creates opportunities for a more global workforce, and employees want to manage their work-life balance.

Crawford:

There is a lot of interest in the marketplace among those same players to go down market into the less-penetrated small-business arena. Unfortunately, in the large-case marketplace, most of the growth comes at the expense of somebody else. The small businesses and medium-sized businesses are really where there's true potential for organic growth for both the industry and the carriers that provide it. Small business is far less penetrated, much more about obtaining new accounts and enrolling new people within those accounts than trading accounts.

One of the other trends that have taken place in the last 5 to 10 years is the offering up of value-added services as part of getting the group voluntary product into a business. Value-added services would be things like identity theft protection, telemedicine access, or collaboration with a pet insurance provider. That's been going on now within our business industry for a solid 5 to 10 years, and it's accelerated over the last five.

Swad:

We are going to see a focus in benefits from an employer's perspective on the amount of healthcare spend. If you look at the healthcare spend in this country, it is dramatically inefficient … So, using artificial intelligence (AI) to notify employees and work with them to reduce their healthcare costs has the added benefit of having healthier and happier people. I think that is going to be a huge space moving forward, and that's why we are making investments in AI.

Where have you seen impacts of COVID-19 on the industry?

Reid:

We've had to find creative ways to deliver exceptional service in a new, contactless environment. Where previously, we could depend on a personal connection with customers, we've had to make a shift to be able to still give quotes, process claims and other service while keeping the safety of our brokers and customers top of mind. Additionally, we needed to ensure that employers have the products and tools they needed to be there for their employees during this challenging time.

Based on our recently released Employee Benefits Trends Study (EBTS), employees are more successful when they feel supported by their employers. So, ensuring that we can continue to provide our customers with the tools they need to support their employees, as well as the brokers and partners that we work with, has been our primary area of focus during the past few months.

Crawford:

Even with the pandemic, no one is waking up and saying. 'I should go out and get some supplemental health insurance.' … The agent has to be armed with better technology. That technology has moved from being the secondary play to the primary play. As an agent, I typically have had the tools necessary to do what amounts to a virtual meeting and virtual enrollment, but I've never really used them as the primary tool to go make a sale. Now I've had it to. These were features that were "nice-to-have'' have become essential.

Where have you seen impacts of COVID-19 on the industry? *(Continued)*

Swad:

It is going to change the products being sold. I think we are going to see a lot more products tailored to mental health. We see, through our claims data, more employee assistance program (EAP) needs, more depression and anxiety medication being prescribed, so I believe that more mental health products will be placed on open enrollment going into the next year.

Customer is a broad term in the group and voluntary space. How do you define your customers?

Reid:

We have two customers, the businesses we provide employee solutions for, and ultimately, their employees that utilize those services. In addition to the relationships our brokers build with their key clients, we work to understand employees' needs. With five generations now functioning in the workplace, understanding what employees are looking for when it comes to employee benefits is paramount in tailoring solutions that can help with what they want. This also benefits employers from the standpoint of attracting and retaining talent. For example, in our study 76 percent of employees who are offered financial wellness programs are satisfied with their benefits. Going forward we can focus on financial wellness benefits and programs that help to inspire greater productivity and loyalty from employees.

Finally, I think customers—both our clients and their employees—have become savvier and more educated about the programs available to them and what's in the marketplace. This means that we must continually adapt, differentiate, and be creative about providing the solutions they need.

Crawford:

We have five distinct groups. Number one is our independent 1099 career sales team of licensed agents. The second is both the independent brokers our W-2 employee sales team that works with brokers who serve large carrier. The third is U.S. employers—small, medium, and large employers. The fourth would be the employees; the U.S. workforce. And, lastly, the consumers that buy insurance directly online.

Swad:

Our perspective on customers has changed dramatically. We are now focused on applying a customer-centric approach, applying innovation and leveraging data to create a relevant and better user experience. We want to provide them with a benefits experience that's easy to access and easy to understand, simplifies the human resource administrator's role and workload, and brings value based on data insights and knowledge.

Where do you think the latest digitally enabled platforms should be best used?

Reid:

From a group benefits standpoint, I think you will see more benefits platform driven through AI. We can use data to drive different outcomes.

Take this simple example: One of your kids is turning 26, and now you get an email that says your kid has to go on his own medical plan, and your son or daughter gets an email with a link to individual products. This is just a simple example of artificial intelligence.

We can go down the other side of the spectrum where we can track insulin usage, and if there's a gap, then there's probably going to be more medical charges down the road, so how do you manage and prepare for that.

Crawford:

We have just launched a direct-to-consumer, digital platform. The three products that we are currently offering digitally are for coverage of cancer, critical illness, and hospital stays. Those products are approved in about 40 states with the goal of going nationwide in 2021.

Viewing the U.S. workforce as our customer, we have to have some direct-to-consumer capability because there are now 25 million people that don't have these jobs where they have a traditional relationship with employers, such as gig workers. They need to shop, explore, and bind coverage on the phone because their whole worksite is on the phone. We have developed that and are rolling it out.

Swad:

I think in the world of platforms, we should all focus on our roles. I should never get into the role of selling products. As we get more specialized, we can focus on the specific issues and opportunities each of our roles face.

From my point of view, our role is to connect buyers and sellers. We are technologists, and we are really good at it. With our capabilities, we know how many products people have, what kind of products people have, and who should be buying a gap product. Through the platform we use, we can reach that person directly, and that will make the person happier because they are better insured. It's also going to make the company (our partner) happier because their people are better insured, it's going to make our partners happy because we are selling more of their products.

Notes

© 2020 KPMG Advisory, a Belgian BV/SRL and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Contact Us

Pieter Herremans
National Insurance Practice Leader
KPMG in Belgium
E: pherremans@kpmg.com
T: +32 2 708 48 81

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia