Worksite marketing – revisited

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Life and pension providers show periodic interest in employer-based distribution of retail financial services. The last wave followed CP121 when the premature reports of the death of the IFA circulated and alternative distribution was sought. Whilst much has changed in the last five years, notably the accelerated move from DB to DC corporate pensions (especially contract-based) and the new options available post-A day, the worksite has failed to ignite as a significant distribution channel for personal investment and pension products

Interest has perked up, and, again, it is the anticipation of regulatory change and the Retail Distribution Review in particular, that seems to be the driver. Web technology advances coupled with lighter-touch regulation, higher product margins and a lower cost sales force model are seen as ingredients for a new coming of age for workplace marketing. But will these factors on the supply side really ignite demand?

Let's be clear on our terminology first. Worksite, or workplace, marketing is defined here as the distribution of financial products, paid for by employees, but facilitated and endorsed by the employer. This definition does not include employer sponsored pension schemes (or the forthcoming personal accounts) but rather the discretionary or voluntary investment and protection selections made by individuals, without any employer contribution. Of course, the potential range of voluntary benefits is very wide - motor insurance to unit trusts and health cover to deposit accounts and general insurers, have long offered discounted personal line products via employers. Financial services may be part of a suite of consumer goods and services presented to employees, sometimes within a flexible benefits package.

American heritage

In the US market, regarded as the birthplace of the concept, worksite-generated revenue is now estimated to account for over 20% of individual insurance premiums written. Worksite marketing there remains synonymous with voluntary benefits paid for by payroll deduction. In the US banking environment, without a direct debit payment system, this method of distribution offered a practical premium collection system. Many US firms operate worksite marketing as an extension of their agency management arms, whilst several firms have emerged offering outsourced sales forces, acting as in-company 'merchandisers' signing up employees.

Data published by Eastbridge Consulting shows that 44% of voluntary benefit sales are for personal life cover and disability insurance (critical illness), with hospital and dental cover representing another 22% of revenue. Some of the largest US worksite firms, such as Aflac, focus on this type of insurance and voluntary medical cover is the fastest growing workplace product area (Eastbridge). Note, outside of 401k plan contributions, savings and investment product sales via the workplace appear to remain limited.

Worksite marketing in the US evolved into a distribution channel primarily focused on so-called blue-collar market segments and became associated with high-cost, poor value products, including universal whole of life products. Functionality offered via intranet or extranet has become increasingly sophisticated, as providers and intermediaries have added a variety of financial planning tools and consumer education facilities, although again within a markedly different compliance regime to that of the UK. Web technology has also shifted the point of sale from just the workplace to the home or other internet access point and from the employee to the wider family unit. As in the UK, however, consumers/employees prefer face-to-face contact when making important financial decisions.

Whilst the history and current challenges may be a little different to the UK, the attractions of worksite marketing and the key ingredients for success are very similar. What is changing is the capability for some (but perhaps only a small number) of providers to develop worksite marketing as a significant alternative distribution channel. There are both push and pull factors causing life offices to look anew at the worksite:

- Life offices with a heavy reliance upon the IFA sector and faced with uncertainty over the future distribution landscape, have looked to exploit other routes to market, capitalising upon existing employer relationships
- Composite offices, which have often run affinity and worksite schemes for general insurance, have looked at opportunities to leverage their product range and corporate connections
- Collaboration between providers and multi-tied agents or 'new model' networks could produce an attractive proposition to employers
- Employee benefit consultants (EBCs) may be increasingly dis-intermediated, or at least find themselves confined to niche roles with large employers, whilst providers strengthen direct relationships with employers and employees. EBCs have also become competitors to, as well as intermediaries of, life offices
- The SME market remains largely untapped for individual sales, with IFAs having focused on group schemes and director-level financial planning
- The retail wrap concept can be transferred to the corporate market, potentially combining individual and occupational pension with retail products, sharesave schemes and flexible benefits to deliver customisable and tax efficient solutions for employees

Set against this array of opportunities there are a number of issues which the providers must address to make the workplace marketing of voluntary products viable:

- Many providers are only too well aware that take-up rates on corporate pension schemes, even those with attractive employer contributions, can be stubbornly low. How much more difficult will it be to attract and convert employees in relation to self-funded, voluntary savings and investments? Whilst seminar-based selling can work well in relation to event-related financial planning e.g. pre-retirement counselling, is this cost-effective for more broadly-based worksite marketing?
- Even in the US, questions have been raised over the cost-effectiveness of investments in web technology due to low usage rates. One provider believes that schemes of less than 10,000 employees are uneconomic for this communication medium - a level which would rule out all but a handful of UK private sector firms

- In order to secure access to large employee bases, will providers be forced to offer 'better than High Street' prices to employees? Clearly, if the market is commoditised too far, the channel will lose its appeal compared to commission-based sales to IFAs etc. The provider's value proposition will therefore need to compete on other than price through the provision of a broad range of products (perhaps in-house and gap-filled) , excellence in execution through an integrated multi-channel approach and differentiated tools and facilities
- If the provider already provides services - whether a pension or general insurance scheme does this help or hinder the move to provide additional voluntary benefits? Will EBCs and employers avoid too much commitment to a single provider?
- How will relationships with EBCs and IFAs develop? Placing a bet on direct distribution may risk existing channels and what if worksite volumes are less than expected?
- It seems clear that worksite marketing initiative needs to be informed by a robust segmentation process. The worksite channel is especially complex given the number of variables involved - the employer profile; employee characteristics and behaviours; intermediaries and possibly collaborative partners in terms of product provision and administration. This adds up to a significant number of moving parts which need to be co-ordinated to operate effectively
- Whilst the RDR promises much, it is currently light on detail in relation to distribution economics. If new model merchandiser and adviser units are to be developed, a great deal of work will be required to understand and calibrate the key sensitivities to inform decisions on targeting clients, pricing, product offerings and sales processes. Whilst US and other overseas experience e.g. Eire, can provide some useful proxies for assumptions, an important part of a worksite marketing approach is often much closer to home - a thorough understanding of the current expense base, the fixed, variable and truly marginal components and its behaviour in relation to different scenarios

The missing link

However, all of the supply side modeling and exhortations of Government and regulator to encourage workplace based saving and financial education may not be enough if employers are not sufficiently motivated. There is a reliance on employers wanting to offer core and voluntary benefit packages, whereas the market trend has been away from expensive DB promises and other perks towards flex and cash in lieu of benefits. With Finance Directors controlling many HR budgets, qualitative, soft benefits have been easy to dismiss in hard-nosed cost control programmes. This position is exacerbated by so few HR managers measuring their returns on benefit investment. With employer attitude being a key factor in the success of workplace marketing, providers need to educate employers and develop the metrics to prove their value.

The correlation between providing a coherent set of practical financial services, with access to advice and information, and significant increases in productivity, can be established through research and has been demonstrated in US studies. The absence of this value analysis will continue to hamper well-intentioned sales pitches and financial education initiatives. With so much expenditure being committed to IT solutions and business case development in relation to workplace marketing, providers would be wise to invest in making tangible and monetising the benefit of benefits for employers.

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