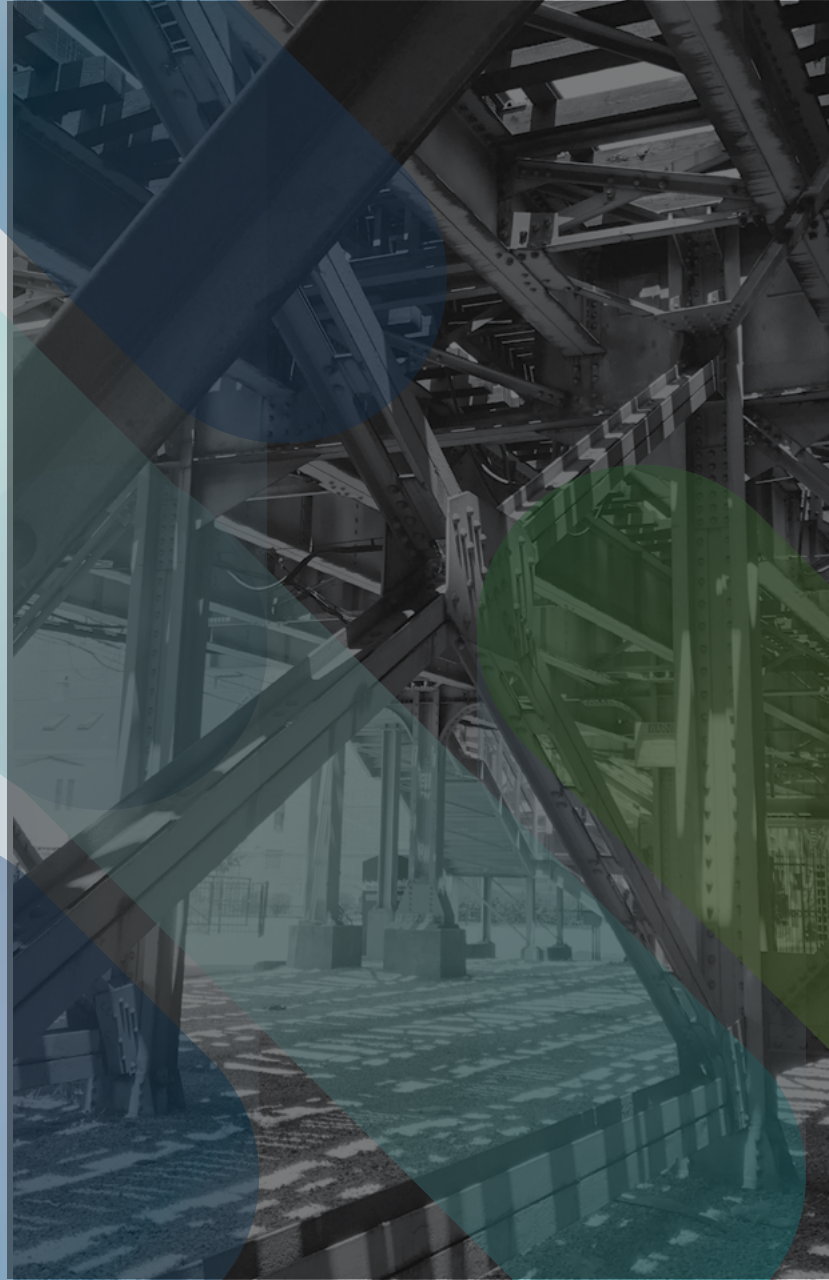


Bridging the Customer Expectation Gap: Group & Voluntary Benefits



June 2023



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Executive Summary

A customer expectation gap reflects the difference between what customers expect, want, and need, as compared to what insurers are delivering. This gap needs to be as small as possible for insurers to create long-term customer growth, value, and loyalty. It demands a customer-centric strategy that understands the unique generational segment differences in behaviors, lifestyles, and more, that drive insurers' decisions about products, services, and customer experiences.

"Traditional" SMB customers – Gen X and Boomers – represent a vast portion of insurers' revenue and profit today. They likely remained loyal to their insurer for years, even if they were not always 100% satisfied. However, these "traditional" customers are changing. They are increasingly digitally adept and are looking for more value from insurers.

At the same time, we are seeing the growing dominance of SMB customers from the Gen Z and Millennial segment who appear to be more in tune with the changing needs and expectations of today's employees – especially the younger generation – and the value of offering newer and innovative benefit options to attract and keep employees. They want new products that will align to their activities and behaviors. And they want it their way ... personalized to them. With the fluid state of employment that is increasingly common for the younger generation, portability and flexibility of benefits has become imperative in the competition for talent.

The Gen Z and Millennial generation has the potential to reverse the growing protection gap for insurance, which went from a high in the mid-1970s, when 72% of adults and 90% of households with two-parent owned life insurance,¹ to a new 50-year low in 2010 when only 44%

of US households had individual life insurance, based on LIMRA's 2010 life insurance study.² A February 2017 LIMRA study noted that employment-based benefits (group and voluntary) life insurance covered more people than individual life insurance as of 2016. Encouragingly, a recent analysis found 50% of North American employers currently not offering voluntary benefits are considering adding them, and 40% who do offer them are looking to add additional benefits,³ which would help close the protection gap.

This changing market dynamic highlights growth opportunities for insurers who can offer benefits that meet a more diverse employee base. Insurers have an opportunity to provide the right products, value-added services and experiences to help SMBs navigate these challenges and position their businesses for growth.

Savvy, innovative companies are redefining insurance from an outside-in perspective to adapt to what customers – of any generation – want and expect, instead of following the generations-long practice of an inside-out perspective that requires customers to adapt to the way insurance works. As a result, these innovative companies are transforming insurance from a mysterious, confusing, and difficult ordeal most would rather avoid, to a more transparent, simple and engaging experience.

To understand the customer expectation gap, we used the results of our SMB, Consumer, and Strategic Priorities research to assess the differences between customers and insurers with a three-pronged gap model view that includes personalized pricing with data/product, value-added services, and distribution channels. This report focuses on SMB customers for Group and Voluntary Benefits.

State of Group & Voluntary Benefits

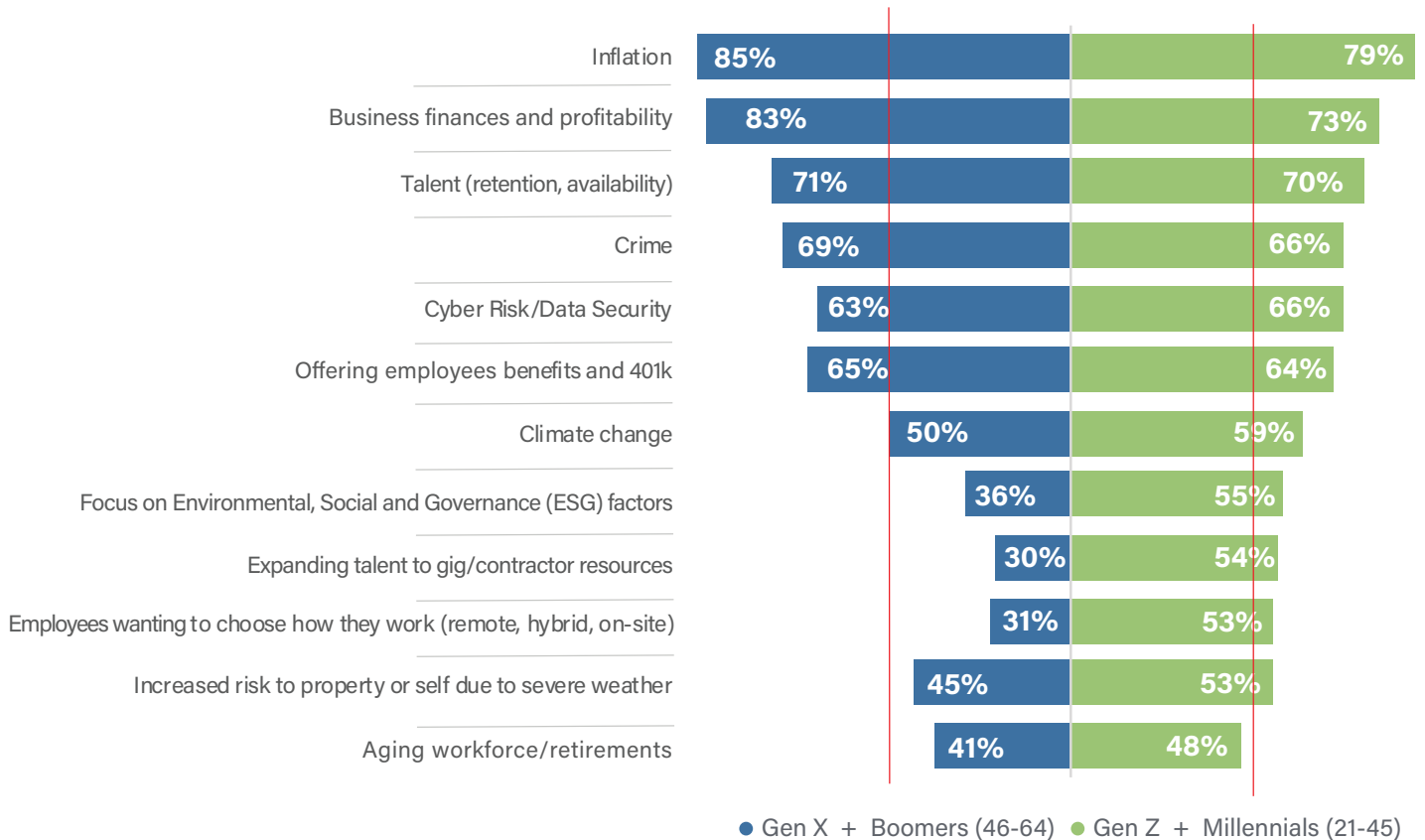
The modern workforce is rapidly changing, with major implications for insurance. The state of play in the market, from both employer benefits and customer needs, is becoming highly dynamic. Upward and downward pressures of the market dynamics are posing new questions for employers and carriers alike. Voluntary benefits are becoming a major component to meet a new employee demand that is influencing employers' ability to attract and retain the best talent.

Group and voluntary benefits are vital tools for attracting and retaining the talent that SMBs need, particularly given low unemployment rates, fluidity of younger generations, and the growth in the Gig market. By helping

to protect their financial security, employees can be more focused, motivated, and productive.

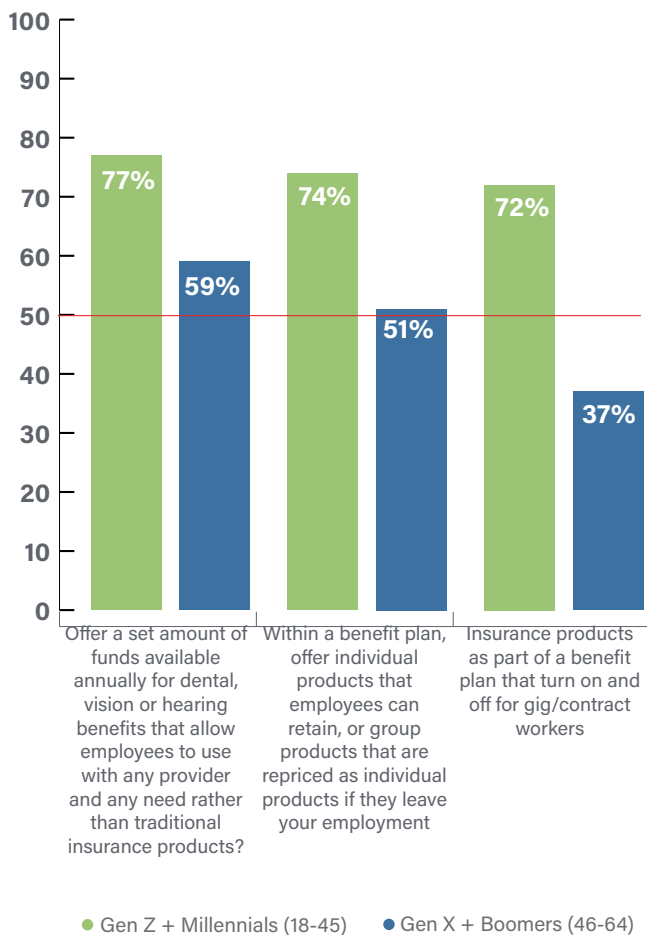
In business owners' top-of-mind issues, talent and benefit offerings are #3 and #6, respectively, as seen in Figure 1. In the battle for talent, a benefits plan that offers choices based on different demographics, including generational groups and lifestyle, can make the difference between attracting star performers or simply missing out, impacting the business positively or negatively. This is why employers are increasingly looking to offer a wider range of products that are relevant and stand out from the crowd, regardless of size of the business.

Figure 1 | SMBs' top of mind issues



For insurers taking advantage of this opportunity, it is not without its challenges. The typical American now holds an average of 12.3 jobs between the ages of 18 and 52, with approximately half of these occurring before the age of 25.⁴ Furthermore, the Gig economy now accounts for about 35% of the US workforce in some form (whether a full-time occupation or part-time), and demand for more fractional coverage linked to Gig workers' itinerant careers presents a challenge.⁵ As such, switching employers is happening more, making the need for insurance a potential gap or opportunity, depending on the product and portability. The demand for these capabilities is high for both generational groups of SMB owners, as reflected in Figure 2.

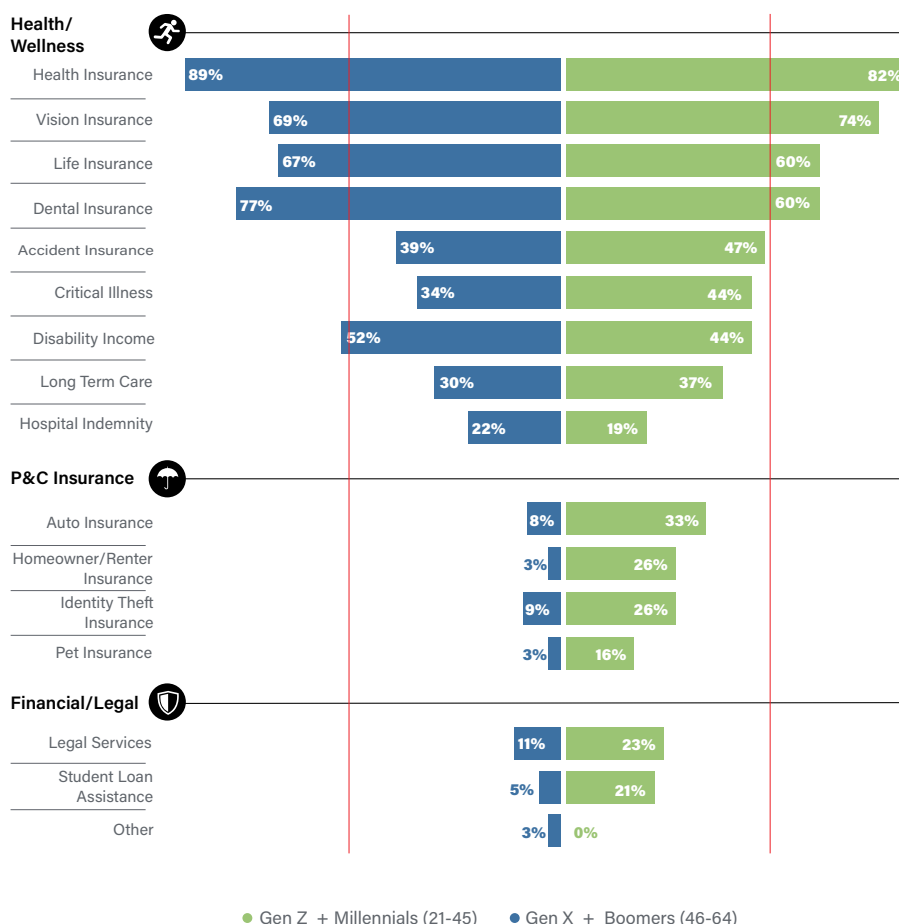
Figure 2 | SMBs' interest in offering new employee benefit plan options





The voluntary benefits market is robust with activity as responsibility has shifted from employer to employee for many nonmedical, health-related insurance products, with strong interest reflected in growing sales. However, today's products are far more traditional — focused on life, accident, disability, medical, dental and A&H, lacking innovation and answers for new needs and expectations, particularly for Millennials and Gen Z. Insurers who can offer options beyond traditional product boundaries have an opportunity to capture new customers more cost-effectively and grow the relationship as they evolve along their life journey. Developing, partnering, and offering products that meet the employee's unique immediate needs, while enticing them to stay as a customer if they leave their employer, is a growing strategy among leading insurers. This is reflected in Figure 3 where the younger generation of SMB owners has a strong, growing interest in other products.

Figure 3 | Voluntary benefits offered by SMBs



It follows that any new or innovative offerings that enhance employees' protection and support employers' fight for talent would offer growth opportunities for insurers. The challenge for traditional group and benefit insurers is understanding what new offerings and plans can position them as the provider of choice to drive more engagement, enrollment, and buying of specific products. This is where next gen intelligent core and enrollment systems can help personalize and drive this growth opportunity.

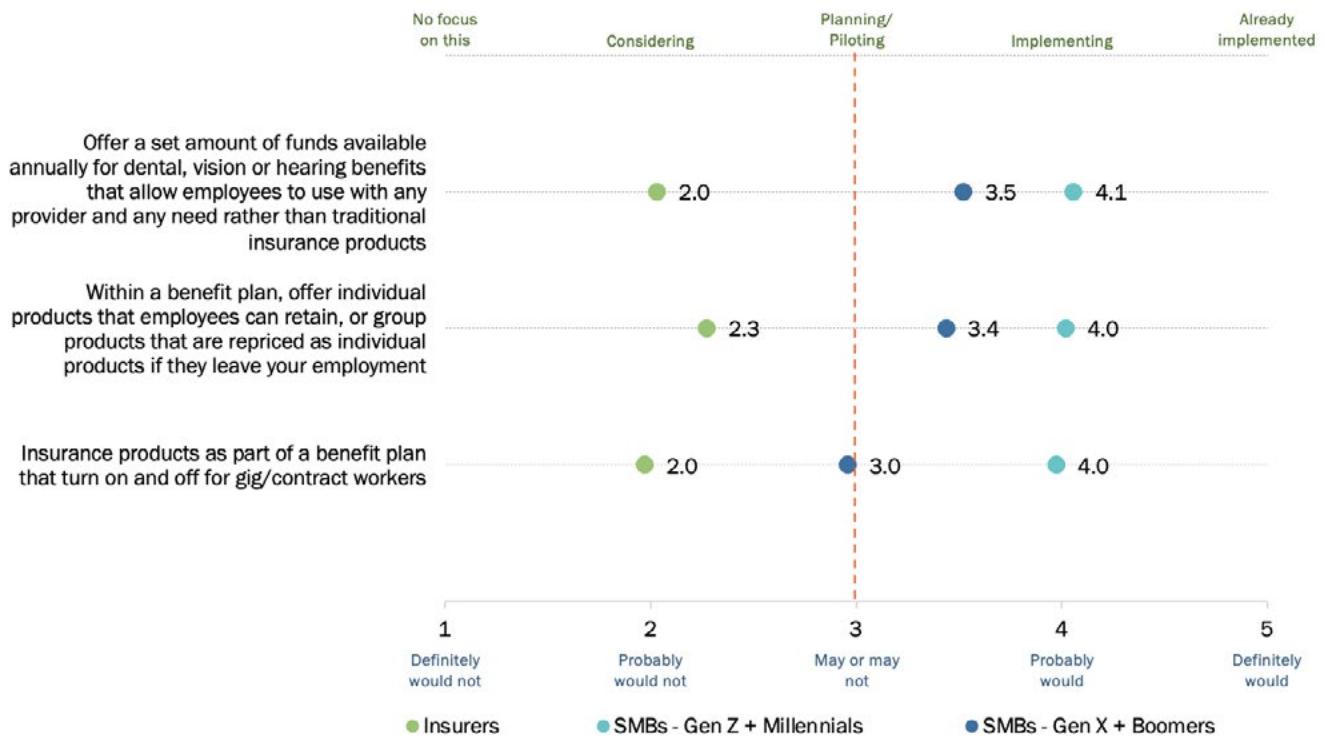
Innovative Benefit & Financial Wellness Products

Insurance can be difficult, complex, and time-consuming, with products and services that do not appear to deliver value or meet personalized needs. Today's customers expect more. They want a risk product, value-added services, and an experience that provides them with what

they need to manage their lives and humanize the entire customer lifecycle. Traditional products can handicap insurers. From an increased interest in life, critical illness, and disability insurance to telematics, Gig benefits, and more, customers want innovative products that assess their personal risk, lifestyle, and behaviors.

This demand for innovative products is seen in Figure 4, with both generational SMB groups having a high demand for them. However, insurers are not responding to this need. In particular, given the fight for talent and the movement of employees between jobs, offering individual products that are more easily portable, and products that can turn on and off for Gig workers is not only expected, but also needed, given the shift in the employee market. With more businesses turning to Gig workers and needing products more aligned to the reality of employee expectations, insurers have a huge opportunity to differentiate and drive growth as the workplace continues to rapidly change.

Figure 4 | Interest gaps between SMB and Insurers in new benefit plan options



Wellness is about adopting new practices and solutions to lead a more healthy and financially secure life. Practicing financial wellness ranges across budgeting, protecting assets like homes and cars, saving, investing, and the use of insurance to meet short and long-term financial goals.

Rising customer interest in wellness can be attributed to many factors. Certainly, the COVID pandemic played a role. The expanded use of wearable devices that track heart rate, sleep cycles, and fitness activity has motivated many individuals to live healthier lives. And a booming wellness economy demonstrates that people are willing to invest in their wellness. For SMBs, managing the financial and operational aspects that keep the business running and healthy – the SMB's financial wellness – has been challenging due to the macro-economic factors post COVID.

According to a CNBC+ survey, only 57% of adults in

the United States are financially literate, meaning that 43% are not using the right tools or lack the knowledge to budget or invest.⁶ Additionally, as stated in a recent LendingClub press release, 63% of Americans are living paycheck-to-paycheck and have not been able to reach a level of financial wellness.⁷ And for businesses, the rising inflation and supply chain challenges, let alone the fight for talent, are straining their short and long-term financial results. This is why it has risen as a top-of-mind issue.

Given that insurance is a major component of financial wellness, it would reflect a tremendous opportunity for insurers to offer capabilities to address it. However, as seen in Figure 5, there is a major gap between customer expectations and what insurers are offering. This reflects a continuing business model and culture of product-versus customer-driven strategies within insurers that will not succeed in a customer-driven marketplace.

Figure 5 | SMB-Insurer gaps in financial wellness value-added services



Data & Analytics for Group & Voluntary Benefits

The importance of capturing, enriching, and using data for identifying opportunities and then delivering a relevant and engaging experience for employees is crucial for Group and Voluntary benefits providers in today's digital era. Whether the data is structured, unstructured, real-time IoT, or machine-generated, it must be leveraged by advanced analytics to enable the creation of tailored propositions and more compelling customer experiences ... aligning employee needs to the appropriate products and services, thereby creating deeper trust, loyalty and engagement.

There is an opportunity during enrollment, but the industry needs to rethink the process. Today it happens just once a year, while so much else happens throughout the year. The birth of a child, entering college, starting a business, marriage, purchase of a new home, trading in cars, getting a new pet, or retirement are all points in time where the employee's risk needs change, but are often missed by insurers. Does this need to be the case – especially with the demand for individual and Gig products rising? Could we capture more employee-

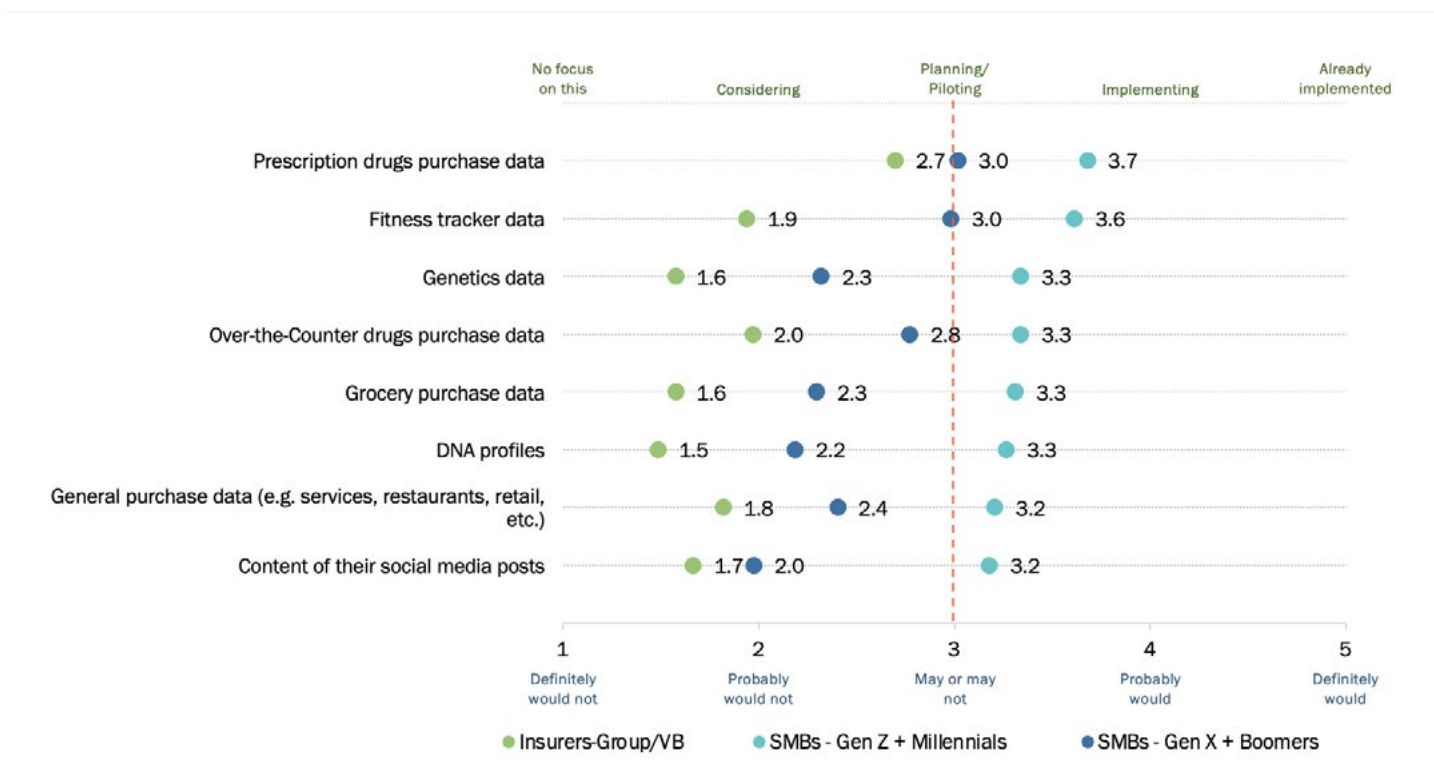
related data internally and externally to guide them in selecting insurance benefits? Yes ... if we rethink how we do business.

SMB Customer – Insurer Gaps

Structured, unstructured, transactional, real-time, and third-party data across the group and voluntary benefits spectrum can be used to drive innovative data-led propositions, improved underwriting and claims, and, ultimately, enhanced customer experiences. And SMB customers and their employees, particularly Millennials and Gen Z, are more than willing to provide a broader range of data for personalization, as represented in Figure 6. However, insurers are not actively using this data, creating a large customer expectation gap.

As more employees look for access to individual products that are easily portable, having them priced based on their personal risk rather than as part of the group will be increasingly demanded. In addition, use of the data and other demographic factors can be used to suggest specific products within the benefit plan that are more aligned to their needs and expectations, driving greater product adoption.

Figure 6 | SMB-Insurer gaps in new data sources and technologies for group/voluntary benefits pricing and underwriting





Leading Insurers Navigating the Gaps

- 1 Aflac launched dental, vision, and hearing plans for individuals pursuing contract, Gig, or solo entrepreneurial work outside traditional workplaces or entering retirement.⁸
- 2 A leading benefits provider launched a new critical illness product that provides DNA testing to support personalized cancer treatments.
- 3 Beam insurance launched a new dental product that includes a smart toothbrush to monitor brushing for improved health.⁹

Value-Added Services for Group & Voluntary Benefits

A key strategy for insurers to address customer expectations is to increase the value of the products they offer. To do so, insurers should bundle, or offer for a price, value-added services that extend the value of the risk product/policy, such as earning points for wellness that can be used to buy things, annual financial planning

assessment, roadside assistance, and more.

Value-added services can create new revenue opportunities while also strengthening the customer relationship, loyalty, trust and value.



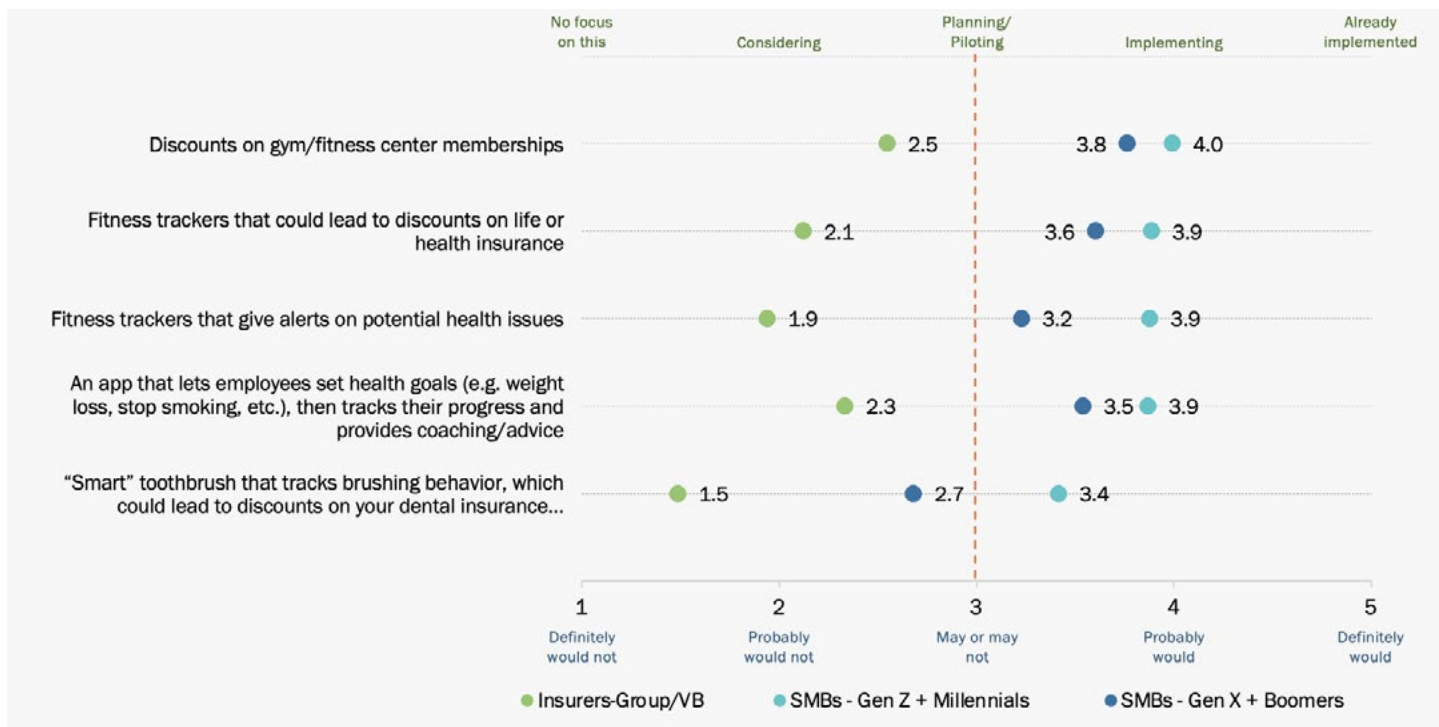


SMB Customer – Insurer Gaps

Across the board, there is a significant customer expectation gap between what customers want – regardless of generational group – and what insurers are delivering, as represented in Figure 7. These value-added services provide tangible value and enhance employees' overall wellness with alerts and more.

In addition, these options could gather more personalized data to enhance their pricing as well as their overall experience. Many are “low hanging fruit” that would not take a lot of effort, but create tremendous value and start insurers down the road to a more holistic, valued offering and experience for customers.

Figure 7 | SMB-Insurer gaps in value-added services for group/voluntary benefits





Leading Insurers Navigating the Gaps

- 1** EquiTrust Life Insurance Company partnered with Assured Allies to offer its Bridge fixed indexed annuity with a long-term care rider policyholders access to Assured Allies' NeverStop data and analytics-based wellness program.¹⁰
- 2** YuLife in the UK wraps their group protection proposition with their employee well-being app, providing access to well-being tracking and counseling services, and rewards partners to build a more engaging proposition for the employee while also providing services to the employer to increase employees' productivity and loyalty.¹¹
- 3** Vitality offers a range of value-added services that are focused on wellness through partnerships with different insurers globally, like John Hancock.

Distribution Channels for Group & Voluntary Benefits

In the traditional distribution model, insurers fight for share of mind, so customers think of them when they need insurance. Many large insurers spend hundreds of millions of dollars on advertising and others spend significant dollars in the traditional agent/broker channel, to keep them "top of mind" when insurance is needed. With the increasing competitive challenges to attract and retain customers, insurers must develop and utilize a broader distribution ecosystem that engages customers when and how they want ... putting the customer first.

Today's interconnected world requires insurance to play across a broad distribution spectrum of channel options, expanding reach to customers when, where, and with whom they want to buy insurance. These options form a distribution ecosystem that expands reach, but requires a partnership approach, particularly for embedded channels.



SMB Customer – Insurer Gaps

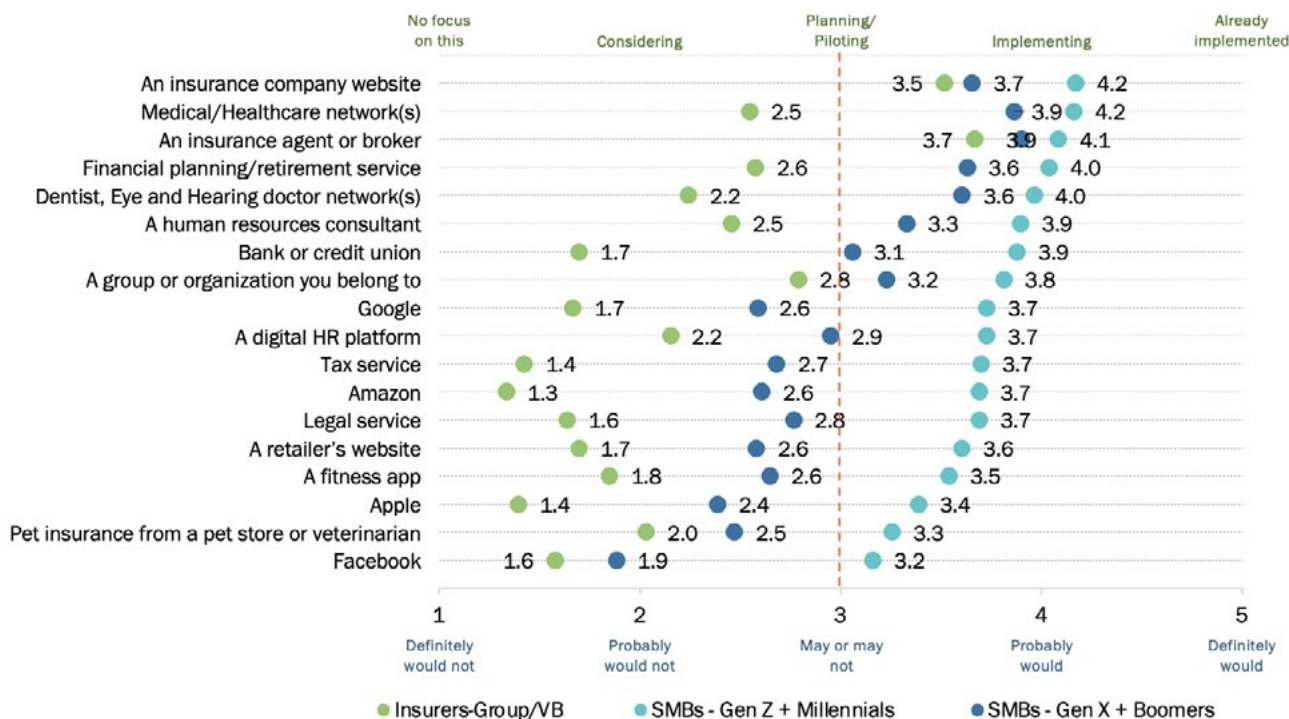
Today's buyers do not necessarily associate with traditional channels and will look to buy insurance through other channels or entities, as reflected in Figure 8. SMBs have other trusted and loyal relationships that make buying insurance through them relevant.

While traditional distribution channels for buying life, health, and voluntary benefits – insurance company

websites and agents/brokers – continue to be among the most popular options in both generational segments, they are eclipsed by the other channels, particularly for the Millennial and Gen Z SMB owners.

This customer expectation gap reflects how group and voluntary benefit insurers are limiting their market reach to this very large and under-supported market segment.

Figure 8 | SMB-Insurer gaps in distribution channels for group/voluntary benefits



Leading Insurers Navigating the Gaps

- 1 Highlighting the GAFA company options, some analysts are predicting Apple will enter the health insurance market in 2024, leveraging rich fitness and health data gathered from millions of Apple Watch users,¹² which will directly align to their desire for personalized insurance using data from fitness trackers.
- 2 ADP works with some insurers to offer benefit plan options to SMBs, leveraging their broader, trusted relationships to manage HR and payroll needs.¹³

Conclusion

Group and voluntary benefits can help companies attract and retain top talent, increase employee productivity and satisfaction, and reduce employees' stress and health issues that often lead to increased time off work. But this is only true if the right benefits are offered and rolled out effectively.

There is a need for innovation around employee benefits and coverages for a younger generation that has different lifestyle needs and for an older generation that wants to port insurance after retirement or may work as an on-demand/Gig worker. Innovative new plans and insurance options and portability are increasingly important to attract and retain employees and to keep them as customers as they change jobs.

Insurers must strike the right balance in terms of the product, value-added services, and experience to support the breadth of generations within the workforce. With the emergence of a more diversified workplace across all generations, employees, and subsequently, employers, expectations have risen for a broader portfolio of group and voluntary benefits products that will meet their personal needs, life stage, and lifestyle. While many employers continue to offer the traditional products of health, dental, vision, STD, LTD, and life, there is an increasing demand for new, innovative products as well as financial wellness offerings.

To retain and grow their business, insurers must rethink their scope to a broader lifestyle experience across health, wealth, and wellness that includes:

- **Insurance Product:** A broader array of products outside the traditional health and life insurance spectrum to include new, innovative products as well as other products including auto, homeowners, pet, and cyber to name a few.

- **Lifestyle, Health, Wealth, and Wellness**

Experience: A broader focus to cover all aspects of people's lives, from health, wealth, and wellness to banking, insurance, legal services, student loan assistance, and more.

- **Value-Added Services:** Provide value-added services such as wellness discounts, preferred access to gym memberships, and access to financial planning services.
- **Distribution Channels:** Collaboration is key to open new channels, to engage with customers, break down barriers to entry, drive better customer experiences and outcomes ... and to compete. By partnering with multiple organizations, insurers can open new ways to connect with the customer and establish non-traditional distribution channels like embedded insurance.

Insurers must work closely with employers to understand and identify what's important to employees, and then rethink the proposition. There's a vast area of untapped opportunities in diversified plays beyond the traditional coverages offered. While the anchor propositions for employer plans are healthcare and retirement services and traditional group covers for protection and disability, expanding beyond this usual set is crucial to close the customer expectation gap and drive growth.

Instead of continuing the decades-long fight for share of the same large employer market, we now have an unmet market opportunity with the small and medium employers. The growth opportunities are pretty astounding. We need to take a step back to rethink how that market needs to be served, and how we can provide benefits to a vastly changed employee marketplace.

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