



White Paper
Seizing the blue ocean
opportunity

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Introducing the series

The case for taking a fresh look at how the pooling industry operates has never been stronger. Fierce competition for a small group of clients is driving down margins at the same time as clients are demanding better and more expensive support.

In this short series of white papers, the Swiss Life Network is joining forces with Ryerson Networks to explore 'blue ocean' opportunities to grow the industry. By blue ocean we mean new, yet unexplored, spaces in the market – or outside the current market space – where demand is created and competitive forces have not taken hold. Along the way, we will challenge ourselves and our readers to think differently. We will be joined by co-authors who are expert in artificial intelligence (AI), our ultimate future customers – Generation Z, and thought leaders on the role of corporate social responsibility (CSR) in benefits.

To kick things off, we will take a quick look at the megatrends shaping our industry's performance. Networks, partners and brokers share responsibility for the current squeeze on margins. We will argue that the remedy is also a shared responsibility and can be achieved by collaborating to meet the needs of the next generation of employees, including their desire for flexibility and choice.

The state of play

There are solid grounds for concern about the future growth of the pooling industry. Industry participants' commercial activity bears many of the hallmarks of a very mature industry. The marketplace has been described as a 'red ocean', characterised by fierce, bloody competition, and low margins and growth, resulting from major players trying to take a share from a small number of multinationals. The impact on insurers is obvious. Fiercely contested tenders are driving down revenues at the same time as client demand for expensive platform-related services is increasing costs.

This competition is happening alongside a fundamental shift in the mindset of the ultimate

customer – employees – as they realise the importance of self-determination.

Competing in a red ocean

The red ocean aspects of the market have become even more acute in recent years. Some brokers are pushing for structures with deep discounts, even when it is expected that the requested premiums will not cover claims and administration costs. In those rare instances where an insurer agrees to deep discounts for commercial reasons, ultimately the client suffers when they are forced to source budget for higher premiums later when rates return to the sustainable level. Due to the maturity of the industry, the clients open to a pooled or centrally-underwritten solution are well known. Brokers and networks have consistently targeted them for new business. Over time, these practices have driven down margins for both net-works and network partners.

Secular governance trends

Multinational governance models are putting more emphasis on greater autonomy for local entities, impacting employee-benefit insurance procurement decisions. In the future, it will take more than the potential of an international dividend to convince local subsidiaries to collaborate.

Distributors, under margin pressures, are limiting growth-related investments. The lack of investment has led to a reliance on out-of-date tools, manual processes and incomplete advice. Second-tier brokers often have the higher-margin small-to-medium enterprise (SME) clients that networks want but lack the infrastructure and expertise to convert them. The bottom line is: there is friction in the broker channel. Fortunately, the industry can alleviate this friction with a considered approach.

Finally, dividend capacity – not only in the most mature markets but also more broadly – is declining, making the financial benefits of pooling less attractive.

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Margin pressures

Clients are demanding better technology, reporting and services from businesses that are low margin and sometimes loss-making. Insurers are increasingly subsidising their different lines of business and, with clients cherry-picking and only pooling profit-making products, the insurers suffer more.

Industry players, looking for approaches that shift the focus from price to value, have made investments in expensive approaches like ICD 10 reporting. To date, given the strong tendency to buy medical insurance locally, it has delivered limited revenue despite the accepted wisdom that medical inflation will put massive upward pressure on employment costs.

The industry needs research to evidence and justify charging for new value-added services.

Employee benefits in the age of self-determination

Many countries, especially those where defined contribution pension schemes have been widely adopted, are seeing a change in employee mindset. This change reflects the pragmatic point of view that solidarity is not entirely solid and, in fact, each generation – and indeed each employee – needs to take care of themselves.

Moreover, employees are growing up in an environment where products are highly customisable to their specific needs. They expect to be able to shape their lives and how they interact with services. To some, their employee benefits insurance products may look quite old fashioned. In fact, we could be approaching a tipping point in terms of what employees expect from their employee benefits programmes. We explore this possibility next.

Tipping points

It is not difficult to imagine how these mega-trends could translate into a change in what employees expect from their employee benefit programmes. We believe we are approaching a time when typical group insurance products will look nothing like they do today.

Meeting rising costs

In our discussions with multinationals operating in countries where employer provided healthcare is the norm, it is clear that these organisations are painfully aware that the trend of double-digit premium increases is not going to abate any time soon.

For all lines, the aging of the global workforce is going to accelerate the growth in costs.

Employers will react to these developments, as they have done already, with defined benefit pension plans and some medical plans. They will share more of the cost and risk with their employees, who will shift from being passive participants in employer schemes to actively engaging to understand how their contributions are being used.

Employees will expect:

- Advice on, and credit for, activities they can undertake to control and to reduce their out-of-pocket costs
- Solutions tailored to their specific circumstances
- Solutions that unambiguously demonstrate the advantages of ‘buying’ protection through the employer programme
- A product that they can engage with in terms of the needs they see.

Meeting needs

Ask a fellow insurance professional about need and they are likely to reply in terms of the need to protect against certain life-contingencies and risks. The critical need an employee has in this era of self-determination is to be on a glide path for a financially secure retirement. And, given the growing awareness of the positive impact of good health, the concept of a glide path should be extended to personal health in retirement as well.

Viewed through this lens, the protections provided by insurance might not be the main event in the future. Rather, we can imagine a future where employees are relying on personalised financial and physical wellness services bundles that ensure they maintain their trajectory towards a secure and healthy retirement.

In that future, insurances play a supporting role. They act as guardrails to keep an employee on track to meet their ultimate need for financial security and personal wellbeing. We must recognise and ready ourselves for the blue ocean opportunity such a future presents our industry.

We will revisit this theme throughout the series. Indeed, Aljan de Boer from Trendsactive will co-author a whitepaper with us, drawing on his insight on engaging with employees based on their specific needs and values.

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The role of AI

At the risk of stating the obvious, everyone's needs are different. And to meet these needs, we must assemble a product experience that is unique to each employee. Early efforts to industrialise the personalisation of the employee experience have involved passively, gathering data either through wearable devices or telematics on the auto-insurance side.

In our view, these applications fall far short of the potential of AI – a technology that has made it possible for computers to see and read for the first time. Surely AI will give us the opportunity to better understand both the employer and employee customer and support them to achieve their specific goals. As this technology approaches a new level of maturity, it is likely to alter operating models fundamentally and, eventually, change the way our customers engage with insurers.

This is a topic we will return to in our article on AI, written in partnership with Standard & Poors.

Corporate social responsibility and the employment brand

One final tipping point that many argue is upon us already is the change in perception of the role of companies. Historically, the focus has been on creating value for shareholders. Increasingly, companies are expected to pursue a dual mission of creating value and contributing to society.

A commitment to a broader purpose can play an important role in attracting employees, and it should be reflected in employee reward programmes. Employees want to work for employers that share their values and use their influence to create a better, more secure future. We see considerable scope for networks and partner insurers to embed a social ethos in the insured programmes offered to employees.

Michael Wesclitz, drawing on his experience as the leader of employee benefits, health and wellbeing for a global fast moving consumer goods company, will share his thinking on a minimum living wage while working, disabled, ill or retired when he joins us as a co-author later in the series.

Swimming in a blue ocean

Despite the significant pressures on the pooling industry, we believe compelling opportunities exist to deliver sustainable long-term growth and better outcomes for multinational clients and their employees.

To create that future, it is important to recognise the gradual but seismic forces driving us towards the era of self-determination. We have no choice but to think differently as participants in the industry. In this introduction, we have discussed how these forces have shaped our industry to date and introduced the trends that will shape its future. In subsequent instalments, we will go deeper.

It is already clear that to remain relevant we must all adapt to meet the changing and diverse needs of both employers and employees. This diversity in need points to a future where providers who collaborate to deliver a holistic solution, rather than single providers, will win out. Although unsettling for established players, this future presents a tremendous opportunity for growth and margin improvement.

There is no question that it will take an unusual effort to align networks, network partners, technologists, broader financial and physical wellness providers and, ultimately, clients to collaborate around a common agenda. But pooling is an industry with a long history and skill in the art of corporate diplomacy. If any industry can deliver this blue ocean future, surely it is ours.

Authors

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Michael Hansen is the CEO of the Swiss Life Network. He has been working with global employee benefits for the past 25 years and has spent more than half of this time with Swiss Life. He has worked in the Nordic region for local and regional insurers linked to several employee benefit networks. In between roles, Michael also launched a few start-ups, including one which led to a period of self-employment running a small consulting business, linking wellness and prevention with traditional employee benefits.

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Fergal McGuinness is the founder of Ryerson Networks AG, an advisory and technology company focused on transforming the insurance industry using AI. Before founding Ryerson, Fergal held a variety of leadership roles at Mercer. He has worked on three continents, advising multinational companies, global insurers and governments on retirement and employee-benefit issues. Fergal is a fellow of the Institute and Faculty of Actuaries.