

# An Eastbridge *Frontline* Report

August 2009

***Voluntary Industry  
Confidence Index  
Mid Year 2009***

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# Section 1

## Introduction

### ***About this Report***

This is an Eastbridge Frontline Report. It provides timely data on hot or new topics. Because the facts are often still emerging or are in transition, Frontline Reports are brief summaries of the facts as they were when the data was collected. As such, the report does not include Findings and Recommendations. The structure is simple:

- Objectives
- Methodology
- Findings

### ***Study Objectives***

In 2005, Eastbridge began conducting a periodic survey that looks at how those in the worksite/voluntary market feel about the industry's outlook for the following year. We published our first *Voluntary Industry Confidence Index* report in December 2005. This edition is mid-year 2009. In addition to reporting the current results, this study looks for trends and patterns in the results over the prior survey.

### ***Methodology***

The data in this report was obtained through an online survey conducted during June and July of 2009. The survey was sent to worksite/voluntary carriers, third-party administrators, and brokers in Eastbridge's database. A total of 104 responses were received. In return for participating, respondents were given a free summary of the survey findings.

# Section 2

## Findings

### Overall Summary of Findings

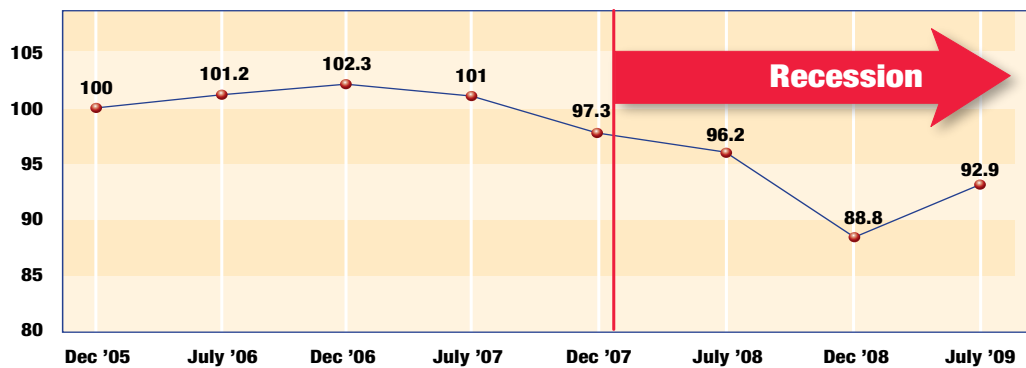
- The overall Confidence Index rebounded back somewhat this time to 92.9. The biggest dip in the index was at year-end 2007, in line with the “official” start of the recession. The index continued to trend downward in 2008, reaching a low at the end of the year. Hopefully, the uptick this time reflects the beginning of our recovery from the recession.
- Brokers were significantly more positive about the next 12 months than they were just six months ago and were more positive than carriers. Eighty-one (81) percent felt we will see increases over the next 12 months, compared to just 68 percent of carriers. Broker confidence can be seen in many of the other measures, too.
- Seventy-three (73) percent of respondents expect to see sales growth in 2009 (as compared to 2008). This percentage is up from 66 percent at the end of last year.
- Fourteen (14) percent of respondents expect to see 2009 sales decline. While down from 19 percent at year end, this is still a high percentage compared to our historical results.
- Sixty-one (61) percent expect the current economic conditions to negatively impact sales in 2009. This number hasn’t changed significantly from the last survey.
- As for industry profitability, a somewhat higher percentage (40 percent) expect greater profitability for the industry over the next year (up from 35 percent). Sixty-eight (68) percent expect their company to be more profitable, down from 75 percent.
- Sixty-eight (68) percent expect employees to be more enthusiastic about voluntary 12 months from now, up from 60 percent in the year-end findings.
- The percent of respondents expecting to acquire more new groups in the next 12 months (as compared to the prior year) dipped a little this time. Specifically, 73 percent expect increases versus 83 percent last time.
- Compared to their expectations for 2009, 44 percent said their sales were lower than expected but 59 percent said they were higher than for 2008 year to date.

## Confidence Index

For mid-year 2009, the Confidence Index went back up; the index increased to 92.9. This is the first survey showing an increase in the confidence level as compared to the prior survey since year-end 2006. While still below our historical levels, all three of the core questions that comprise the index were up as compared to the prior survey.

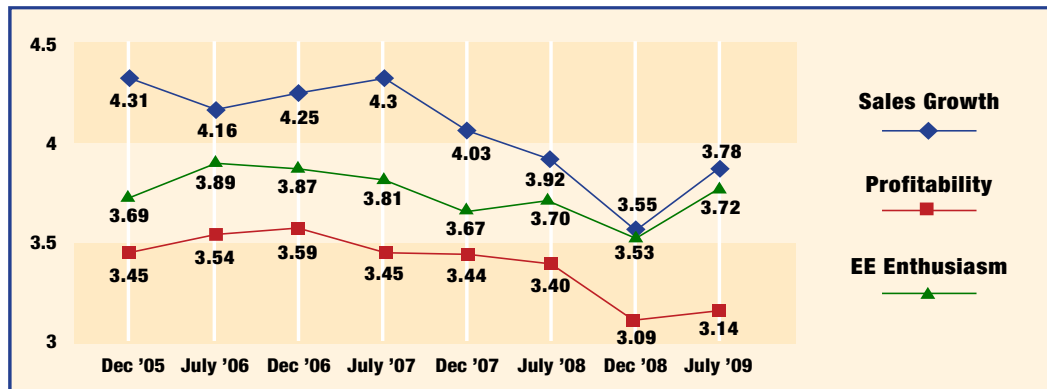
The following graphs show the trends in the index and how the results of the three major questions making up the index have varied over the surveys completed to date.

### Voluntary Confidence Index



### Means Over Time for Key Measures

(5 = Increased a lot)



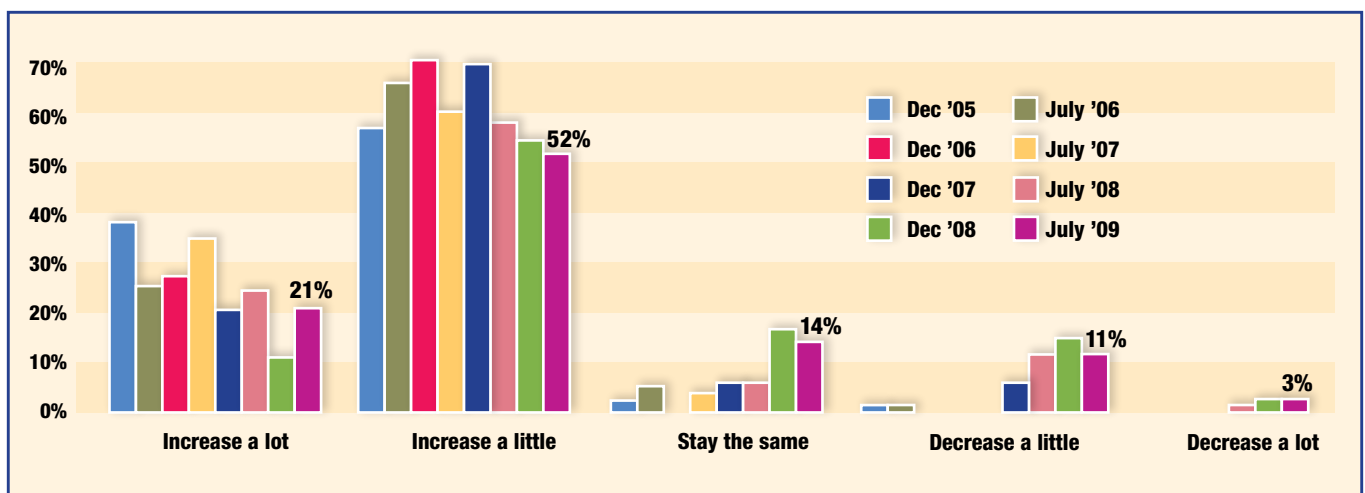
[Note: Mean scores are calculated based on a scale where 5 means “increased a lot” or “much more profitable” and 1 means “decreased a lot” or “much less profitable.”]

In looking at the index by carrier platform, all three platform segments had increases over the December numbers. The biggest increases, however, occurred in those companies selling individual or both group and individual products (“mixed platform”).

## Voluntary Sales

Confidence in the industry's ability to maintain sales growth has made some recovery from the low point at year-end 2008. Seventy-three (73) percent of respondents believe that sales will increase in 2009 (compared to 2008 sales), up from just 66 percent at year-end. The percentage saying sales will increase a lot went up from just 11 percent to 21 percent, and those expecting decreases went down from 19 percent at year-end to 14 percent in this most recent survey. These shifts resulted in a higher mean score of 3.78, up from 3.55 at year-end 2008.

### Sales Growth



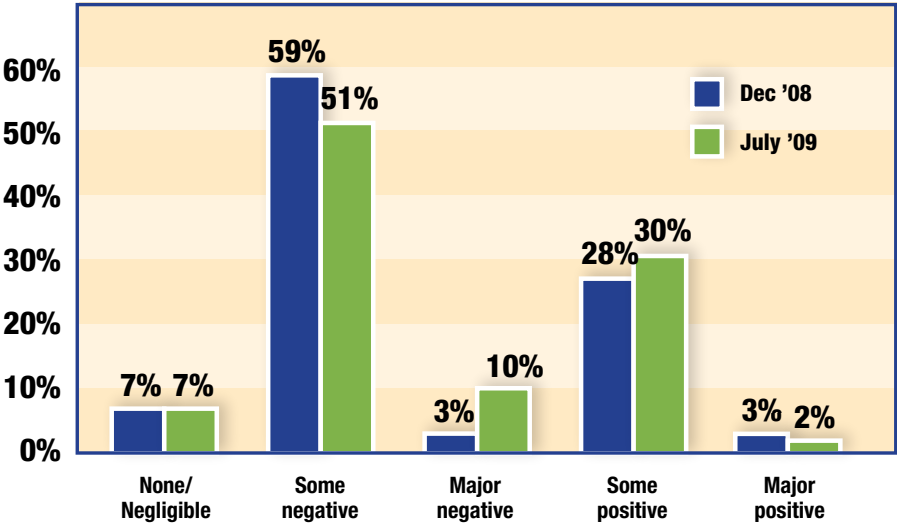
We compared the insurance carriers' responses by platform and found very little difference between the results. By size, most companies were similar, although companies with less than \$2 million in sales were less positive than carriers in the larger size categories.

Interestingly, brokers were more optimistic than carriers. Eighty-one (81) percent felt we will see increases over the next 12 months, with one-third believing the industry's sales will "increase a lot." On the carrier side, just 68 percent expect sales to increase. There were also few brokers saying sales will decrease (7 percent versus 19 percent of carriers).

## Impact of the Economy on Sales

Due to the current economic crisis in the country, we added a new question to the survey last December. We asked respondents what impact they believe the current economic conditions will have on 2009 sales. Most respondents (61 percent) still believe it will have a negative impact. The majority (51 percent) said it is likely to have “some negative impact” as opposed to “a major negative impact.”

### Impact of the Economy on Voluntary Sales

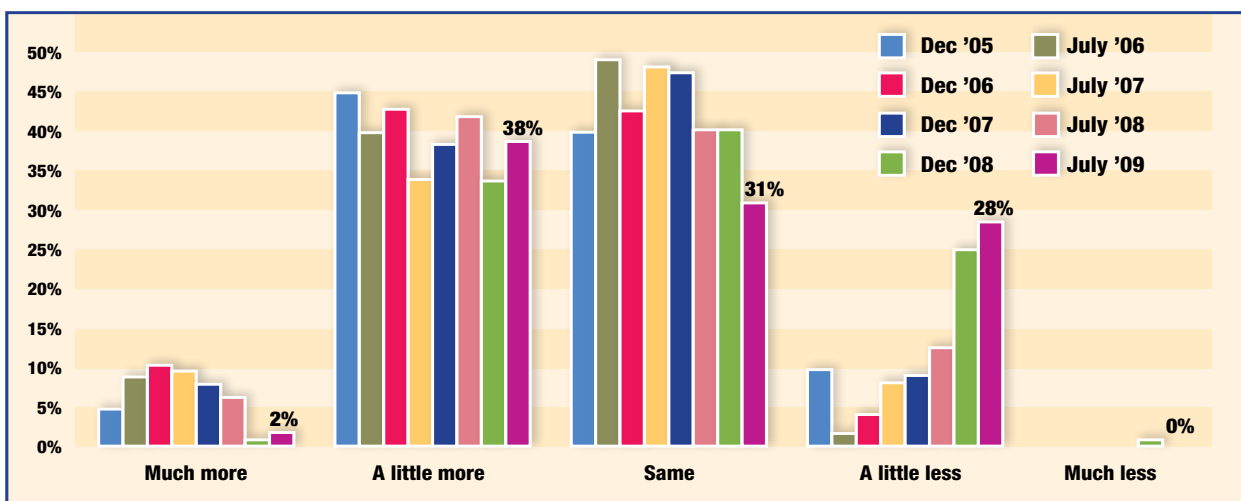


Group companies were more likely to see some positive impact. There were no significant differences between carriers of different sizes.

## Profitability of Voluntary Lines

When asked if voluntary carriers (as a group) will be more profitable 12 months from now, forty (40) percent expect industry profitability to improve, up from 35 percent at the end of 2008. However, the percent expecting profitability in the industry to decrease also went to 28 percent, somewhat higher than the 26 percent at year-end. Most of those expecting a decrease say the decrease will be “a little bit.” There are fewer people expecting profitability to remain about the same over the next 12 months (31 percent compared to 40 percent at the end of 2008).

### Profitability of Carriers as a Group



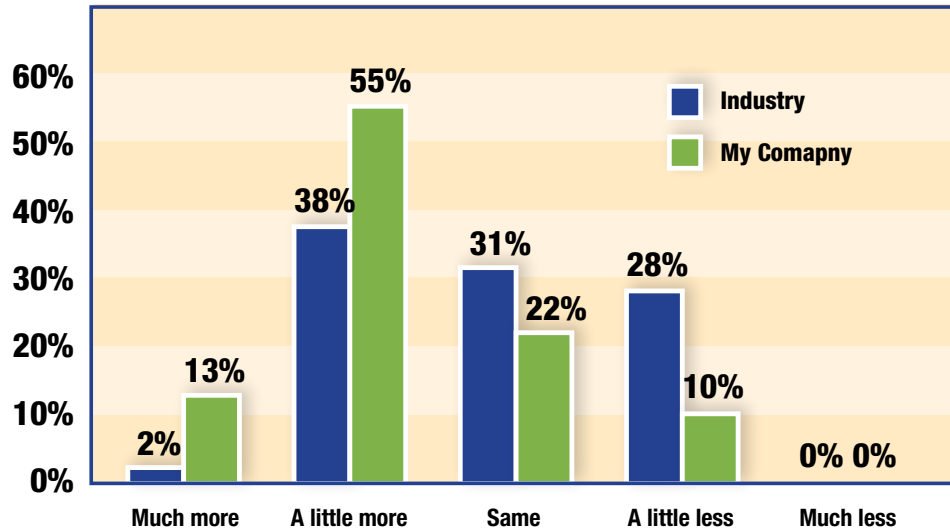
Group companies were more likely to expect industry profitability to remain the same, while individual companies expect the industry to be “a little more” profitable. There were no significant differences based on size of the carrier but again, brokers were more positive with 63 percent expecting increased industry profitability.

Expectations for broker profitability (as a group) dipped further with 51 percent expecting it to be greater 12 months from now, down from 53 percent at year end. But this was driven by carrier responses. Among just the brokers responding to our survey, 67 percent believe (as a group) they will be more profitable in the next 12 months, compared to just 47 percent when we look at just carrier responses.

When asked if their own company would be more or less profitable a year from now, 68 percent expect to be either “much more” or “a little more” profitable, down from 75 percent at year-end.

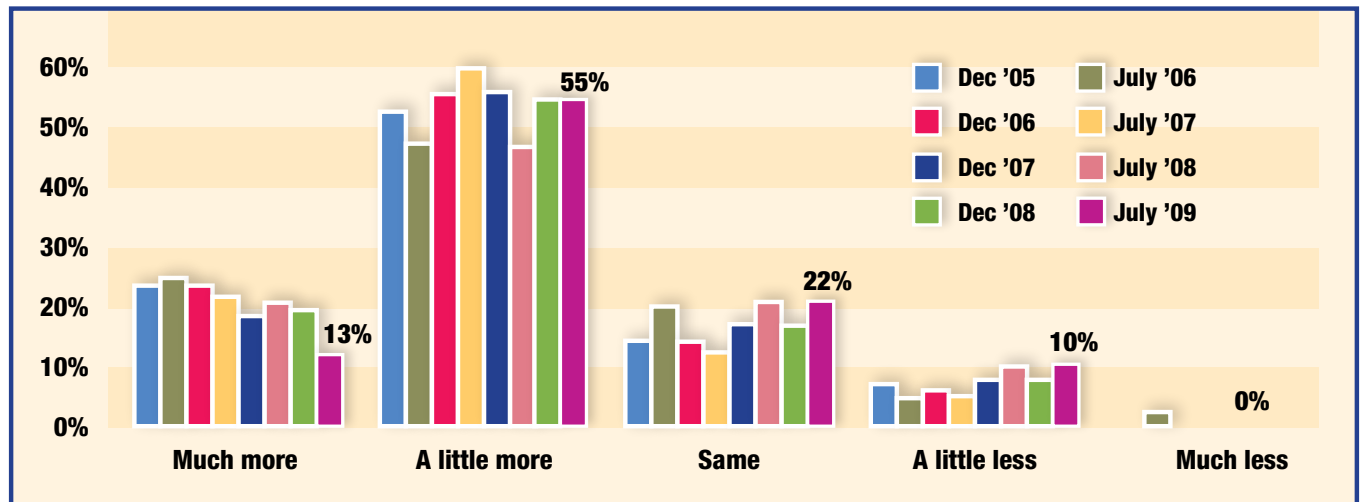
We are again seeing respondents expecting higher profitability for their own company than for the industry. The “gap” between the percent expecting increased profitability for the industry versus their company shrank to 28 points—back to historical levels and down from the high of 40 percentage points at the end of 2008. The following graph shows the current results for “my company” versus “the industry.”

## Profitability in Twelve Months



The following graph compares the results from the past surveys for just the “my company” question. There was an increase in those expecting profitability to be “the same” or “a little less.”

## Profitability for My Company

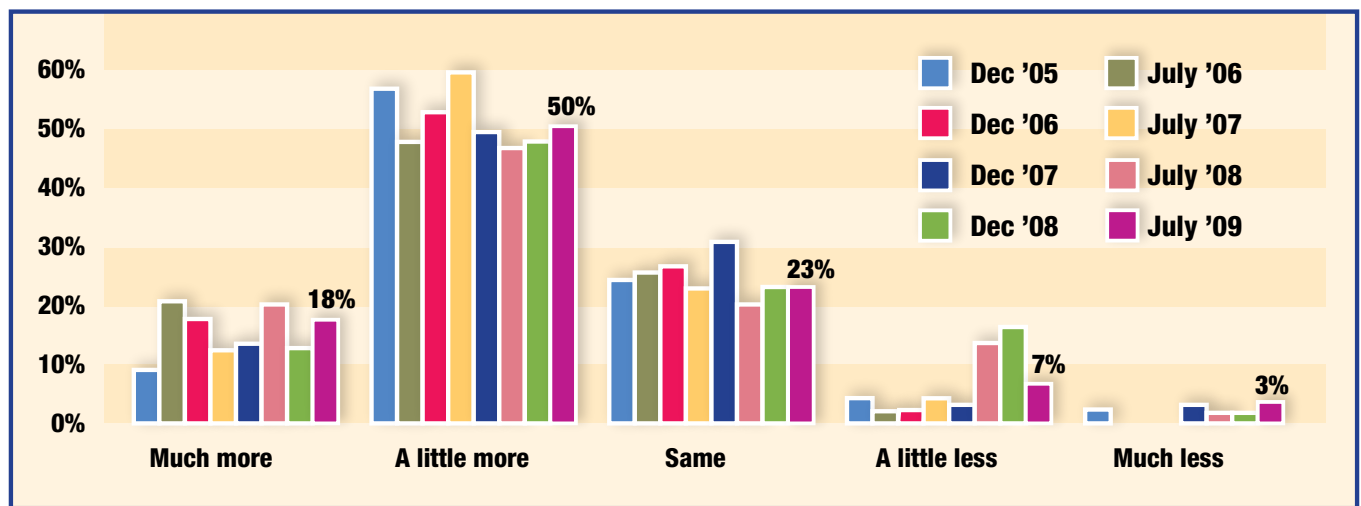


For this question, there were no significant differences by platform. By size, the smallest companies were most likely to believe their profitability will increase. Brokers also expect their own company’s profitability to increase. In fact, 93 percent of broker respondents believe they will be more profitable 12 months from now.

## Employee Response to Voluntary

Expectations for employee enthusiasm about voluntary benefits over the next 12 months have increased to more historic levels in the most recent survey. Sixty-eight (68) percent believe that employees will be more enthusiastic about voluntary benefits 12 months from now, up from 60 percent in the year-end survey. Only 10 percent believe employees will be less enthusiastic about voluntary over the next year, down from 18 percent year-end. The overall mean for this question was 3.72, up from 3.53.

### Employee Enthusiasm for Voluntary

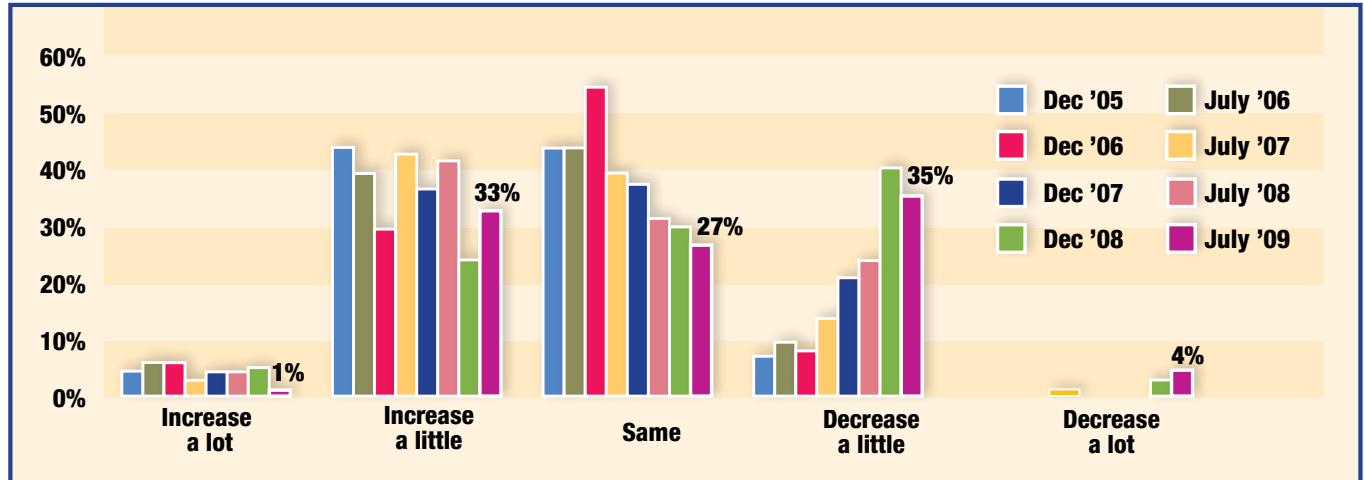


Brokers were significantly more positive with 85 percent expecting employees to be more enthusiastic (compared to just 60 percent of carriers). By platform, there were no differences. The largest companies were the least positive.

## Persistency/Retention

Thirty-four (34) percent of respondents expect improvements in persistency/retention over the next 12 months, up from 29 percent at the end of 2008. Thirty-nine (39) percent expect to see a decrease, down from 42 percent last year.

### Persistency and Retention



There were no significant differences in the various sub-groups for this question.

## Premium Rates

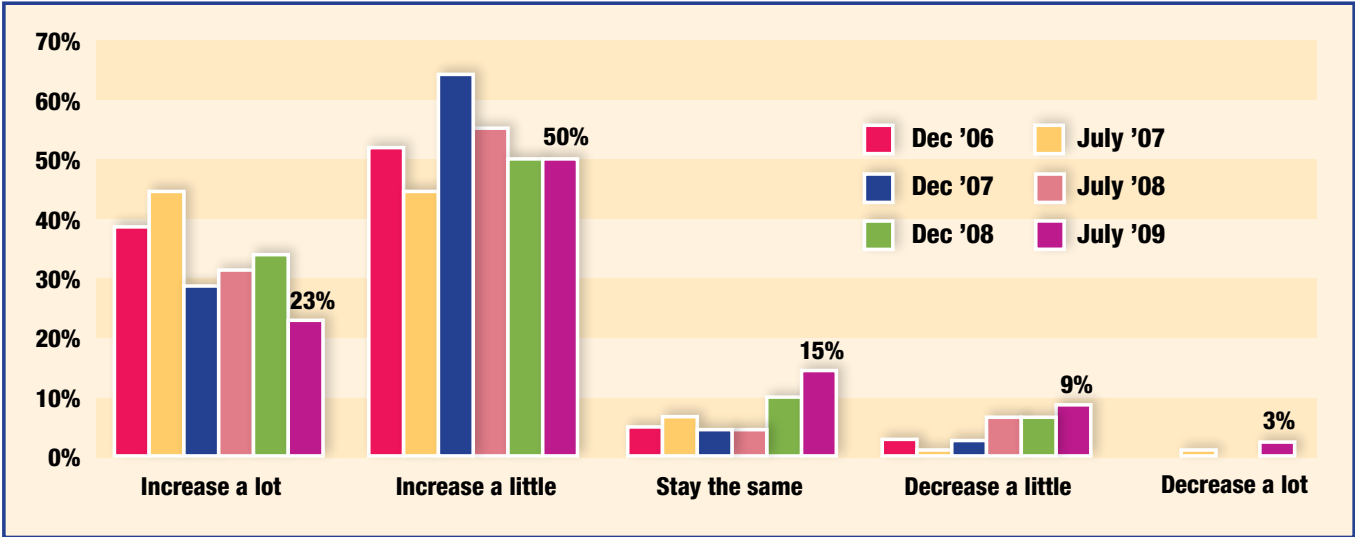
Again this time, the majority of respondents expect premium rates for voluntary to remain the same. Specifically, 67 percent think they will remain constant compared to 69 percent in the year-end survey. Twenty-one (21) percent believe premium rates for voluntary lines will increase in the next 12 months (the same percentage as the last survey). The percent expecting decreases in premium increased slightly from 10 to 13 percent.

Companies with a mix of both group and individual products were more likely to say they expect premiums to increase.

## New Group Growth

Fewer respondents believe that their company will acquire more new groups in 2009 (as compared to 2008). The percent expecting increases was 73 percent compared to 83 percent at the end of 2008. This number has decreased steadily over the past 18-24 months; at the end of 2007, 93 percent of respondents expected to sell more new cases in 2008 as compared to 2007. Currently, up to 12 percent expect to see decreases.

### New Group Growth

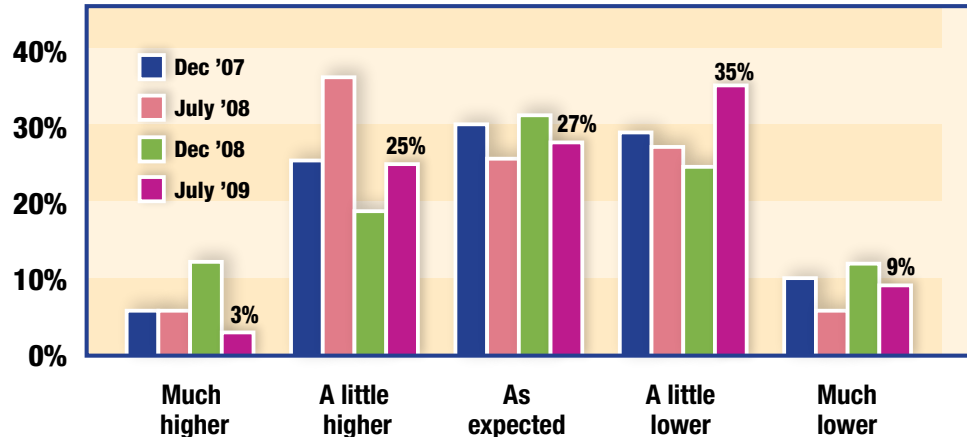


There were few differences by carrier size or type, but brokers were again more optimistic than carriers. Specifically, 89 percent of brokers expect to acquire more new groups in 2009 than in 2008, compared to just 73 percent among carriers.

## Sales Results

When asked how their actual sales results for the year compare to their expectations for 2009, 44 percent said sales were lower than expected year-to-date and 28 percent said sales were higher than anticipated.

### Actual Sales vs. Expected Sales



There was very little difference by carrier size, but those with either group products only or individual products only were more likely to say that sales were less than anticipated. Among brokers, 52 percent said their sales were higher than expected. This is significantly higher than the 18 percent of carriers who said their sales were higher than expected.

Those that had results below their expectations were asked what they believe contributed to the poor results. “The overall economic slow down” was the most frequent answer followed by “fewer cases than anticipated” and “lower participation rates.” The table below shows the full results. (Respondents could check more than one reason so the total is more than 100 percent.)

Reason for Less than Expected Results	July '08	Dec '08	July '09
The overall economic slow down	-	-	80%
Fewer cases than anticipated	44%	61%	52%
Lower participation rates	26%	52%	30%
Smaller case size	26%	22%	25%
Lower number of producing brokers/ reps	22%	26%	23%
Difficulty in getting brokers to use our services	9%	26%	23%
Enrollment difficulties	13%	24%	11%
Lack of interest by sales force	13%	22%	11%

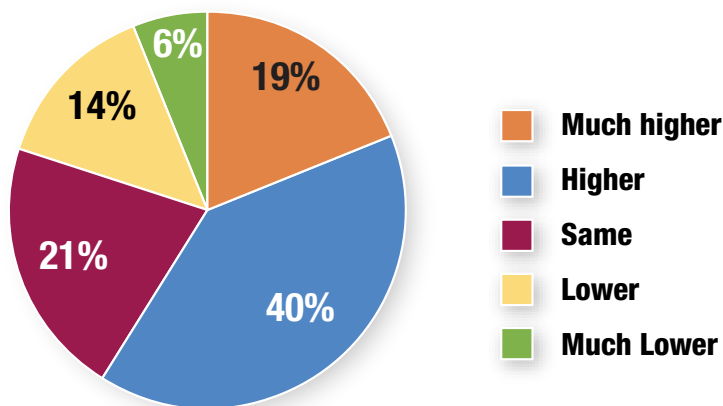
Stronger competition than anticipated	22%	11%	11%
Lack of state approvals	13%	24%	7%
Lack of product quality/variety	-	-	7%
Administrative or billing issues	22%	17%	5%

Those experiencing higher than anticipated sales were also asked the reasons. The most frequently provided responses were “more cases than anticipated” and “higher participation rate.” The full results for this question are as follows:

Reason for Higher than Expected Results	July '08	Dec '08	July '09
More cases than anticipated	48%	54%	61%
Higher participation rates	38%	41%	43%
Larger case size	35%	60%	36%
New product introductions	41%	41%	36%
Higher number of producing brokers/ reps	48%	35%	29%
Less competition than anticipated	3%	3%	0%

We also asked how 2009 sales to date compared to 2008 as of the same time period. Fifty-nine (59) percent said their sales were higher. Most said “a little higher,” but the total percentage experiencing higher sales compared to 2008 was great news — though somewhat surprising.

### 2009 Sales Compared to 2008



Brokers once again were much more likely than carriers to say their sales are higher than last year (66 percent of brokers compared to 44 percent of carriers). Among carriers, those with individual products only were more likely to say sales were lower than 2008 sales. Large companies were more likely to say their sales were higher than in 2008.

## Demographics

The respondent demographics for the last three surveys are shown below.

Role	Jul '08	Dec '08	Jul '09
Insurance carrier	58%	44%	54%
Producer/broker/consultant/enrollment company	35%	40%	36%
Third-party administrator/other	7%	16%	10%

Seventy-three (73) percent of the respondents are senior or executive officers in their companies and 68 percent are directly involved in sales.

Among the carrier respondents, there was a mix of sizes and platforms (as seen in the following two charts). In terms of company size, there was a higher percent of “mid-size” players this time. The mix between group and individual platform companies shifted somewhat towards those carriers that offer at least some group products or only group products.

Company's NBAP	Jul '08	Dec '08	Jul '09
Less than \$2 million	13%	12%	12%
\$2 to \$9.99 million	15%	21%	16%
\$10 to \$49.99 million	28%	40%	37%
\$50 to \$99.99 million	18%	8%	12%
\$100 million or more	26%	19%	24%

Type of Products Manufactured	Jul '08	Dec '08	Jul '09
Individual only	13%	10%	8%
Mostly individual	28%	14%	22%
Both individual and group equally	27%	29%	33%
Mostly group	15%	26%	22%
Group only	16%	22%	15%