



## BENEFITS BUSINESS

By Len Strazewski

# EMPLOYEE BENEFITS FOR SMALLER ACCOUNTS

Outsourcing can improve service and retention

“Service is our business.” That’s one of the cornerstones of the tradition of the independent agent and broker. And no line of coverage demands more consistent service than employee benefits.

But what happens when the service demands of small business clients exceed the revenue and profit potential of the relationship—or the resources of the agent or broker?

It’s happening more and more often as the rising costs and increasing sophistication of employee benefits coverage lead to smaller returns for agencies accompanied by greater and greater demands for service, notes Melody S. Hope, principal and director of employee benefits at Hausmann-Johnson Insurance in Madison, Wisconsin (<http://www.hausmann-johnson.com>).

“Specialization has become increasingly important,” she explains, “and if you are going to continue to grow as an agency, you need to put your resources into the lines of coverage and clients that can become the most profitable.”

More than five years ago, the 60-person multiline independent insurance brokerage adopted a segmentation growth strategy, dividing its client base into tiers representing its revenue growth potential.

The bottom tier, primarily small businesses or small accounts related to larger clients, was traded down from experienced producers to a new department in the firm that was focused on small accounts.

Employee benefits service, however, posed a difficult problem, according to Hope. Small employee benefits accounts don’t require less service; they need more, she says.

“Small employee benefits clients rely on us even more than larger clients. Many of our small clients don’t have full-time human resources departments to administer employee benefits. For some of our clients, we are the human resources department,” she says.

In 2002, Hausmann-Johnson made a tough decision: to turn

over its smallest employee benefits tier of business—employee benefits clients with 15 lives or less—to a new specialist service company in order to focus its producers and in-house service on larger clients.

“It wasn’t an easy decision and we put it off as long as we could. No agent wants to give up a client and it was personally difficult for me,” Hope says. “I gave up the first group I ever signed at Hausmann-Johnson many years ago.”

The firm chose Digital Insurance, Inc. (<http://www.digitalinsurance.com>), an Atlanta-based employee benefits service company launched in 2000 to specialize in small business accounts. The company has about 55 employees and 57 agent/broker partnerships representing about 7,100 small business clients.

The company provides a Web-based and toll-free telephone employee benefits service center as the centerpiece of comprehensive account service, according to Chief Operating Officer Adam Bruckman, a former sales and marketing executive with ChannelPoint, a health care provider, and Prudential Insurance Co. of America.

The company also provides account renewal management, HIPAA claims management, COBRA alternatives and additional coverages, including group life insurance, disability insurance, dental benefits and individual supplemental coverage including accidental death and dismemberment insurance.

Service is now available in about 40 states and will be nationwide by the end of 2004, according to Bruckman.

While the service center can handle employee benefits groups of 200 or more lives, Bruckman says the company was founded specifically to solve a common problem for agents and brokers: providing service to the smallest employee benefits clients, groups of 25 or fewer lives.

He notes, for example, that some agents and brokers may specialize in property/casualty lines of insurance and provide employee benefits as an accommodation or ancillary part of the relationship.

*“Small employee benefits clients rely on us even more than larger clients. Many of our small clients don’t have full-time HR departments to administer employee benefits. For some of our clients, we are the HR department.”*

Melody S. Hope  
Principal and Director of Employee Benefits,  
Hausmann-Johnson Insurance

"Agents and brokers always indicate that 80% of profit comes from only 20% of their clients, and everyone wants to maximize those most productive relationships," he explains.

"Brokers that specialize in property/casualty coverages may have clients that are large, important risks requiring extensive risk management and paying substantial premiums. But their employee base may be small and their employee benefits group size may be smaller than the broker can service effectively.

"These agents and brokers need to retain those clients for their property/casualty business as well as provide their traditional level of high service for employee benefits—which requires a different set of resources," he says.

"These firms can't really afford to operate their own call center with extended hours, make proactive service calls, or even handle the account renewal management—which in these days of increasing health care costs, may require extensive re-marketing."

However, while agents may feel like they are giving up the clients, Bruckman says the relationship is more of a partnership than a complete transfer of the book of business.

He says Digital Insurance partners with these agents and brokers to function as an extension of their employee benefits department—providing the service that the agents and brokers can't, and continuing to share revenue with the originating firm as co-brokers of record.

Mike Sullivan, executive vice president and chief marketing officer of Digital Insurance, says partner producers may also benefit from new business and an improved client relationship.

"It's not just a question of bringing the client service up to grade, but also providing a whole new way to manage the client relationship for these small businesses and possibly generating additional revenue from new business," he says.

Small businesses are one of the fastest growing segments of the U.S. economy, he notes, adding employees and expanding benefits as they compete for skilled workers. Digital Insurance provides access to expanded group coverages as well as individual or voluntary benefits for employees.

The company also plans to expand its services to include other services for small businesses, including payroll management and flexible spending accounts management.

For Hausmann-Johnson, the relationship has gone well,

Hope says, with only a few glitches. The brokerage provided an introduction to its regional insurers to simplify the transition, and some clients did miss their personal relationships with their producers.

"There are still some clients who want to call us for all of their business and some producers that can't leave their long-standing clients, but it has generally gone well—with client retention of 95%," she says.

In April, Digital Insurance announced contracts with five new agent/broker partners: Armstrong/Robatille, Inc., in Fullerton, California; Barney & Barney in San Diego, California; Harbor Benefits Group in Ann Arbor, Michigan; Hylant Group in Cleveland, Ohio; and Scheer's, Inc., in Countryside, Illinois.

Barney & Barney, one of the 40 largest privately owned brokers in the United States made the decision after "putting it off as long as possible," says Kathy Ybarrondo, principal and manager of employee benefits.

"For a long time, we did not have a strategic approach to small business; but in the past few years, we have become very aggressive with smaller accounts—which for us means accounts under 50 lives," she says.

A local leader in association programs and professional liability insurance, Barney & Barney wanted to ride the tide of rising small businesses and develop cross-selling opportunities with employee benefits. The brokerage now offers extensive employee benefits brokerage service and a small business accounts department.

However, Ybarrondo says, Digital Insurance provides an opportunity for Barney & Barney producers to focus on the larger employee benefits accounts without neglecting the needs of the smallest accounts.

"By passing the small business employee benefits to a partner, we can expand the small business unit to focus on the property/casualty risks for small business and cross-selling those accounts," she says.

"So far, so good," she says, of the relationship. \*

#### **The author**

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