



Goliath service for David employers: Big brokers partner to boost small-client service

By Robert L. Whiddon

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Servicing small group health clients is hard and getting harder for benefit advisers. The contingent commission squeeze and greater employer scrutiny of the stripe, color and cost of the thousands of available health offerings are just a few of the reasons why many of America's largest brokers have decided to change their approach to the market, opting to partner with companies like Atlanta's Digital Insurance and eHealth Insurance to handle their smallest clients. The megabrokers are pleased with the improved service levels these partners afford their clients, evinced in part by their high business retention rates. To be sure, they also appreciate the fact that the arrangements boost the revenue they derive from small employers.

For the past four years Digital has been growing rapidly. The company's book stands at 13,000 clients and represents a half-billion dollars in health premium. Mercer announced its partnership with Digital last October, and Wachovia Insurance Services, yet another heavy hitter in the benefits brokerage market, is in the process of migrating its smaller clients.

"We examined our book of business last year and found that the vast majority of our clients generated the vast minority of our revenue," Graham Chalfant, employee benefit practice leader for Wachovia Insurance Services, says. Many of his big-brokerage peers have come to the same conclusion. Digital counts Aon, Gallagher, Brown and Brown, USI, Lockton, and Hilb, Rogal & Hobb as clients.

Adam Bruckman, president of Digital, is not surprised by the growth. Small group is just hard to get right and requires special attention and focus. Still, he believes his firm can help both small employers and advisers turn lemons into lemonade.

"We get [clients] to really look at their profitability in a certain segment," Bruckman says. If advisers are good (and lucky) they may see 15% margins in their small business block. Digital says it can triple that. "We'll let them hold onto 40% of the revenue and, in larger deals, even 50%," according to Bruckman. All the while boosting the level of service employers receive.

Entering the Digital age

One way they do it is by limiting or eliminating the face time an adviser spends with an employer. Leisurely planning lunches, golfing and general schmoozing is hard to do over the phone. That doesn't mean no service, though. Bruckman says while the clients may lose the long lunch, they gain a more focused and better-equipped adviser. The company averages eight touches a year. Some are inbound, dealing with client issues, but most are outbound.

"It's just redefining service," Bruckman says.

But what is the new definition? Bill Howell, president of United Benefit Advisors - a coalition of roughly 150 independent benefit advisers serving small- and mid-market employers - says reactions to the Digital model vary.

"Many of our members have been approached by them," according to Howell. "If an agency views small group to be their sweet spot, then this is indeed competition. However, there are some agencies that would rather not serve small groups, and in those cases, an alliance may make sense."

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Bruckman says retention rates and client testimonials tell a different story. "We've retained 95% of the business over the past four years that's been brought over to us. Our retention rates speak for themselves," Bruckman says. Everyone agrees that it is different service, but the question remains whether it is better service. If it is, does that spell trouble for the thousands and thousands of advisers that subsist on the low end of the market? Not necessarily, experts say. Digital's partners don't see the Atlanta-based company as a broker killer. Opportunities remain for advisers set up and geared to serve the small employer market. Digital is for brokers that are not aligned to do that.

Most of Digital's broker clients pick either a revenue number or a case size and decide to shift anything below those bars over to Digital, whose average case size is 11 lives. Wachovia picked revenue, and moves those that generate less than \$5,000.

But small clients turn into big clients, right? Sure, but like many "buts" Digital has a method for addressing the adviser community's concerns.

Brokers are able to review that. Digital runs monthly reports tracking employer revenue. If one tripped over the threshold, the broker would get a chance to bring them back in-house.

There is another check in the system, however. As clients grow, their needs grow. Small clients require standard brokerage services. Larger clients require more sophisticated services - strategic plan designs and claims analysis are examples. The logic for why Digital would stay out of those areas is simple - money. It wouldn't make sense for them to back into the bread and butter of their broker partners, which is - again - the larger groups.

Digital account managers handle between 200 and 300 clients each. That's two or three times the average for the industry, which is why some Digital initiates and converts are still reluctant to migrate certain prized clients. Again, Digital has a solution.

"Those should be the first clients to go," Bruckman says. At least they should be if the service offering is as good as Digital says it is. But that's not the case, and that's why Digital has a VIP program. Certain employers can be coded so that when an issue arises, the brokerage client - Wachovia for example - is looped back into the discussion.

"We've had to adjust to an agency base that obviously has built their business on these customers," Bruckman says. "We understand it's important to them. We've got many different ways to get them comfortable about some of those more sensitive clients."

But not every Digital client gets the company's full bag of tricks. Larger clients can negotiate better deals. For instance, Aon's deal gives it a dedicated service team of 12, and it keeps its brand. Operators in the Atlanta office answer the phone, "AON Select Services." And other communications pieces carry the broker's name. Digital is mentioned as a partner.

Other firms prefer a more transparent approach. They simply tell small clients that they've found a better fit for them.

"The larger the deal, the more it'll tend to move toward the branded side," Bruckman says. "The smaller the engagement, it tends to be easier for us to use our generic material and answer the phone, Digital Insurance,' and that type of thing."

Willis breaks from herd, stresses threat to small advisers

Digital Insurance is not the only option for larger brokers looking to accomplish the twin objectives of improving service for their smallest clients and improving their own financial return from those customers.

Willis, for one, has zigged where its brethren have zagged. And while its decision may seem like one of preference, it underscores a broader market change that advisers serving the small employer market must heed.

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America's third largest insurance broker entered into an agreement with eHealth-Insurance a little less than two years ago. Just like Digital, eHealth boasts business retention rates north of 90%, giving Willis comfort that the clients it shifts to the Web-based company will be well served. The megabroker has about 15,000 covered lives with eHealth and estimates that a typical employer case size is around 25.

Rick Elliott, president and CEO of Willis Benefits North America, like his big-brokerage brethren, does not worry about boosting eHealth into a competitor for its higher-level consulting services, however he does say small advisers are right to be wary of the rise of companies like eHealth and Digital, depending on what type of service they bring to their clients.

"If the value you add as a service provider is moving a document from one folder to the next, or simply swapping data from one bucket to the next, technology and the Internet is a great threat to that, and yes, there is a shift going on around our industry as to what value a broker or consultant provides," Elliott says. "Companies like eHealth and Digital are figuring out a way to do that faster, more efficiently and cheaper," he says.

Elliott's colleague, Sewit Bocresion, adds that companies like Digital and eHealth are integral to the small business community because even brokers that focus on that market segment exclusively are taught to review their books and strip out unprofitable clients.

"It's really the death knell to hear for small businesses, right?" Bocresion, VP of strategy and business analysis within Willis' employee benefits practice, says. "It's effectively telling the small business, don't come talk to us.' We're saying we have a platform that provides services to small businesses."

Where Digital supports a traditional group benefits mentality among the small employers, and brokers like Aon, Mercer and Wachovia Insurance Services shift to them, eHealth admits its focus is the individual insurance market.

"There is somewhat of a shift especially in the lower end of the small group," Sam Gibbs, senior vice president and general manager for the decade-old Web company, says. "Businesses can no longer afford health insurance. Either they don't offer health insurance at all or the ones that do are dropping out of it."

According to Gibbs, that differentiates eHealth from Digital. While Digital is great at helping megabrokers manage their existing book of small employer clients in a traditional manner, eHealth says it is the platform for brokers that are looking to navigate the market shift.

"If [these large brokers] are looking to the future and looking at going into affinity groups or associations or other types of potential customer bases ... where there could be the potential for a lot of individual and family business, then we have by far the best platform for that," says Gibbs.

The platform, which the company has spent 10 years building, is comprised of relationships with more than 150 carriers and more than 4,000 plans. - R.S.W.

