



## Big brokers partner to unlock small-client value

By Robert L. Whiddon

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Servicing small group health clients is hard and getting harder. 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 Atlanta's Digital Insurance to handle their smallest clients. And while the mega-brokers are pleased with the high retention rates and greater profitability Digital affords them, those who continue to toil at the low end of the market should take heed of the Atlanta-based brokerage's continued impressive growth.

For the past four years Digital has been gobbling up clients. 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 market, is in the process of migrating its smaller clients. Three offices have been done and the remainder should be completed by summer, says Graham Chalfant, national employee benefits practice leader for Wachovia Insurance Services.

"We examined our book of business last year and found that the vast majority of our clients generated the vast minority of our revenue. It was the 80/20 rule but even more extreme than the 80/20 rule," he says. Most 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, CEO and president of Digital, is not surprised by the growth. Small group is just hard to get right. Still, he believes his firm can help advisers turn small business 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.

One way they do it is by cutting out the face time an adviser spends with a client. No leisurely planning lunches. No golfing. No schmoozing. 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.

Not everyone agrees. Bill Howell, president of United Benefit Advisors - a coalition of roughly 150 independent advisers serving the small and mid employer markets - says member 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 the small groups, and in those cases, an alliance may make sense."

Still, he says that handing off clients because they don't produce enough revenue is risky. Also, there is a chance that employers could misread Digital's no face time approach. No face time could be construed as no touch, he says. "So there is a great deal of skepticism surrounding the ... approach."

Bruckman says retention rates and client testimonials tell a different story. Chalfant agrees.

"The retention rate on the business we've moved over so far has been 90%, which of course thrills us," Chalfant says. It's actually even better than that, according to Digital.

"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 because, if it is, that should spell trouble for the thousands and thousands of advisers that subsist on the low end of the market, right? Not necessarily, says Chalfant.

"Digital is not a broker killer," he says. "If you have a brokerage firm that is set up to handle small group, they are not going to be disintermediated. It's for the brokers that don't want to be in that business. That is a key distinction."

Most Digital 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 don't small clients turn into big clients? Chalfant says sure, but like many "buts" Digital has a method for addressing the adviser community's concerns.

"We've got an opportunity to review that. We get reports run each month by them, and the reports show us the number of clients and will show us revenue by client. If we saw someone that grew above that \$5,000 mark, we've got the opportunity to go back to Digital and bring the client back," Chalfant says.

There is another check in the system, he adds. 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. Chalfant says the logic for explaining why Digital will stay out of those areas is simple.

"I would guess they are not planning on doing it because that would threaten the big brokers that are giving them their small clients. They can make a lot of money [servicing those clients]. It wouldn't make sense for them to back into our bread and butter, which is, again, the larger groups," Chalfant says.

But Digital has a history of changing. The company originally started out as an online agency. The outsourcing small business client model took shape a couple of years later, according to Bruckman. That too has changed recently. Whereas 90% of Digital's 100

<http://eba.benefitnews.com/asset/article/49794/big-brokers-partner-unlock-small-client-value.html?pg=>

employees used to be dedicated to account management, with the remainder fielding the errant lead or two that needed closing, now it is more a 70/30 split. Digital isn't just interested in managing your small business accounts, it's interested in building that pipeline through new sales.

"We're hiring inside sales folks all the time," Bruckman says.

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 announce to their 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."

