

SMALL BUSINESS HEALTH PLANS:

GO BROKER, OR GO BROKE

Carriers are searching for ways to reduce broker dependency in the small group health insurance market, but embracing the channel could be the answer to market challenges.

CARRIERS ARE ATTEMPTING TO SHAKE UP SMALL GROUP SALES MODELS

Small businesses with 2-50 employees are a growth engine for the American economy, continuing to grow year over year. However, fewer of these employers are offering health insurance. [The percentage of firms offering health benefits dropped from 59 percent in 2012 to 53 percent in 2016.](#)¹

At the same time, medical loss ratios (MLRs) have increased in light of the introduction of [an 80 percent minimum threshold](#) and the rising cost of care. Carriers face a dual threat of decreasing enrollment and rising medical costs, forcing them to re-evaluate the way they do business.

Impacting the medical cost trend requires participation of a wide variety of stakeholders, many of whom the carriers cannot directly impact. Therefore, carriers are more likely to try to reduce administrative spend categories, where there is more that they can directly influence. The broker channel, given the high cost of commissions, is a frequent target. In theory, if carriers adopt a direct-to-employer sales model, they can cut out the middleman, thus improving service and eliminating commissions.

DISPLACING BROKERS IS A DIFFICULT AND EXPENSIVE PROPOSITION

Accenture surveyed 1,503 small employers to understand the role that brokers play and test the hypothesis of disintermediation. The research indicates that brokers, which continue to be a primary channel, are a cost-effective channel for carriers to grow their business and improve employer satisfaction.

The broker channel offers three structural advantages over the direct channel:

- Brokers have a **stronger relationship** with employers than carriers.
- Employers see brokers as offering **sales and service**, with some even supporting activities such as billing and claims inquiries.
- Even those employers willing to switch to a direct channel believe that there are **high switching costs** to leave their broker.

¹ <http://kff.org/health-costs/report/2016-employer-health-benefits-survey/>

BROKERS HAVE A STRONGER RELATIONSHIP WITH EMPLOYERS THAN THE CARRIERS

Although carriers continue to see rising Net Promoter Scores (NPS)² with members, their NPS with employers remains low. On these “first sale” contacts, Accenture research found that **brokers achieved an NPS of 28 compared to -2 for carriers**. Brokers also have longstanding relationships with their customers. Employers operating for 10+ years reported that more than half have had their broker for 6-10 years, with one in three having the same broker for 10+ years.

These longstanding relationships make disintermediation challenging. In markets where disintermediation has seen success, the middleman has been perceived as a roadblock between end users. However, in the health insurance space, employers believe brokers add value through this separation. Fifty-four percent of respondents reported that they strongly agree or agree with the statement, “My broker helps me avoid dealing with the insurance company.” (See Figure 1.)

The perceived value of the broker extends beyond grief avoidance. Eighty percent of employers believed brokers helped them “get the best product” and 76 percent believed that they helped them “get the best price.” This translates into a trusted advisor role for brokers that will be difficult for carriers to replicate.

FIGURE 1. BROKER VALUE PROPOSITIONS

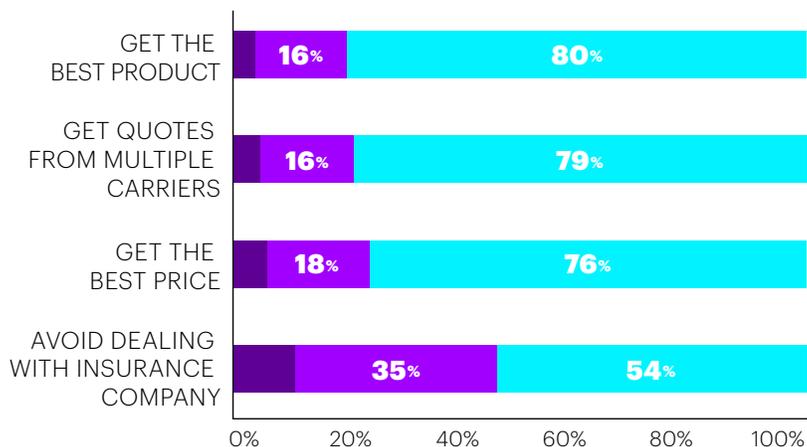
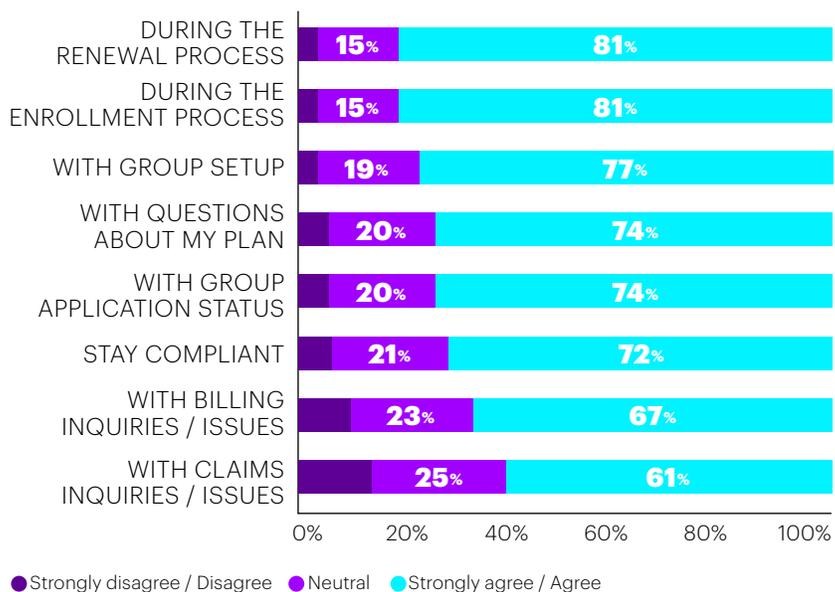


FIGURE 2. EMPLOYERS BELIEVE BROKERS PROVIDE ADDITIONAL HELP



● Strongly disagree / Disagree ● Neutral ● Strongly agree / Agree

Source: Accenture 2017 Small Business Employer Survey

BROKERS PROVIDE SALES AND SERVICE

Carriers that want to disintermediate brokers often focus on the point of sale. The belief is that if the direct channel can provide an opportunity for the employer to get a product cheaper, then they will take it, leaving the broker behind. While it is true that brokers continue to play a role supporting the “quote to card” process for employers, their activities extend beyond the point of enrollment.

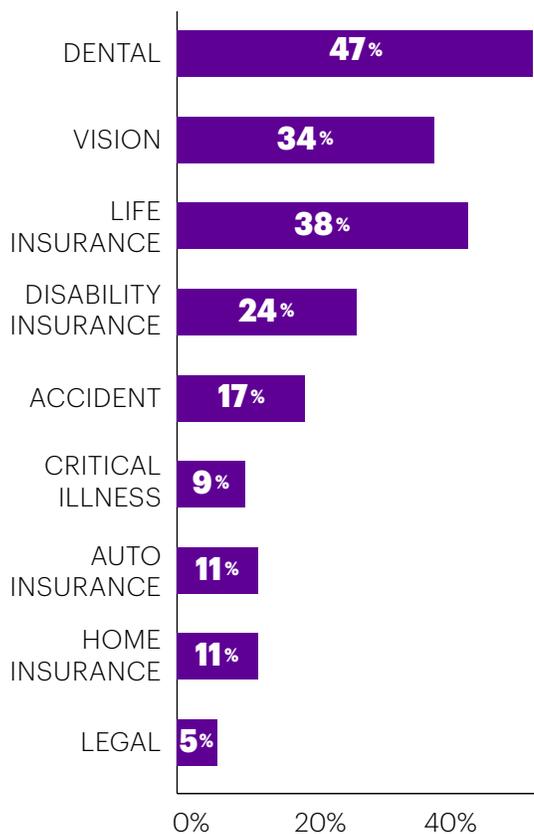
In fact, 50 percent of respondents said they engaged with their broker throughout the year. Brokers played key roles in helping employers stay compliant (72 percent), with billing inquiries/issues (67 percent) and even with claims inquiries/issues (61 percent). (See Figure 2.) If carriers successfully

displace the brokers, they will need to develop a model that ensures employers continue to receive these services.

Brokers also provide a wide variety of ancillary products to employers in the small group segment. (See Figure 3.) Given that time is a commodity for these buyers (65 percent reported that they don’t have time to manage the process on their own), a one-stop shop approach is valuable. Carriers offering only health insurance will need to also offer these ancillary products, and ensure a streamlined experience as they compete with brokers to manage the process for the employer.

² Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

FIGURE 3. BROKERS OFFER A VARIETY OF ANCILLARY PRODUCTS



Source: Accenture 2017 Small Business Employer Survey

THE HIGH COST OF SWITCHING

If carriers want to avoid competing with brokers on a relationship basis and service basis, they can attempt to price the brokers out. **In fact, research shows that 42 percent of employers are willing to go direct under the right conditions.** However, this comes at a high cost – one that significantly outweighs the commissions currently paid to brokers with employers reporting a median required premium discount of 20 percent.

The pass-through pricing of commissions creates further complications for carriers, as employers are, in some cases, not aware that commissions exist. Of those respondents with a broker, 43 percent were not aware their broker received a commission and 9 percent thought their broker did not. This means that from the employer lens, disintermediation of the broker is a loss of free services.

OPTIMIZING THE EXISTING BROKER CHANNEL

Rather than attempting to create a new business approach from scratch by going direct, carriers should look to prioritize investments that optimize the existing approach. By investing to improve the broker channel, carriers can help grow market share and drive efficiencies, without the costly startup and ongoing costs required to go direct.

Carriers can take these steps to optimize the broker channel.



1. ANALYZE NEW DATA TO BETTER UNDERSTAND BROKER PERFORMANCE

Broker data models typically focus solely on revenue and commissions data. However, carriers can and should be asking more questions about the brokers, after all not all brokers are created equal. For example, which brokers have the highest service volumes? Who are the brokers that lead to higher NPS scores among employers? By creating a more complete picture of brokers, employers can achieve better results by identifying the brokers that are evolving to meet the new world of lower commissions and greater responsibilities from the carriers.



2. ADOPT A STRATEGY OF DIGITAL ENABLEMENT VS. DIGITAL REPLACEMENT

If broker service requires calling the carrier, then the services they offer still represent a cost to the carriers. Deploying self-service options for brokers is a valuable way to help them maintain their relationships with customers and reduce call volume. For instance, can carriers grant brokers read-only access to billings and claims systems? Can brokers view the enrollment workflow?

Carriers might be tempted to deploy self-service capabilities directly to employers and members, however, they might have more success deploying to brokers. Since employers and members likely only have one-time transactions, it's easier for them to call the carrier with questions than figure out a new tool. Brokers who process many transactions are much more likely to use the new technology. In addition, since the tool is not member facing, carriers can simplify the interface design and functionality, thereby reducing development costs.



3. USE THE BROKER CHANNEL TO ENGAGE WITH EMPLOYERS AND EMPLOYEES IN NEW WAYS

Sometimes the messenger is just as important as the message. If carriers are willing to invest in the broker channel, they have the potential to overcome trust barriers in the channel and tap into the brokers' relationships with employers. For example, could carriers create health management education and tools to deploy via the broker channel? Would members be more receptive to hearing from their company's broker that they need to obtain preventative services than from the carrier directly?

IF IT'S BROKE, FIX IT

Disintermediation of brokers is a tempting opportunity. Carriers need to consider if the startup costs to deploy a direct channel outweigh the potential benefits of optimizing their current approach with brokers. Current employer attitudes suggest that brokers will continue to play an important role in the small group segment. To go direct, carriers will need to overcome a relationship gap, provide a replacement set of services and give a significant discount on premium. However, the cost of doing so will need to be less than commissions currently paid to brokers. Optimizing the existing process is likely a better path to prosperity.

For more information



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Methodology

Accenture surveyed 1,503 small employers (2-49 employees) in the United States that currently offer group health insurance. The survey explored small employers' attitudes towards buying, enrolling and receiving service from their insurance carriers and brokers. The research was conducted in April 2017.

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