



Are you Stuck in the P&C Technology World?

Employee Benefits Brokers forced to comply with P&C brethren

A Classic Case of the Tail Wagging the Dog

By Joe Markland

You are a manager or employee of an Employee Benefits operation that is part of larger Property and Casualty (P&C) firm. The Employee Benefits operation employs between 15% - 30% of the staff and generates upwards of 50% of the total agency revenue. And while the P&C revenues have had modest growth or are flat, Employee Benefits revenue is growing at a double-digit clip. In spite of this, too often the Benefits operation continues to use technology designed specifically for their P&C colleagues. As you would expect, this technology doesn't match the Employee Benefits business needs, forcing paper-based processes and work-arounds, to ensure the job gets done. And more importantly, revenues are lost because the P&C System fails to track commissions appropriately.

We believe it's time to reevaluate your priorities and take a hard look at changing the status quo. The good news is that there are a myriad of options to consider that can significantly improve the efficiency and effectiveness of the Employee Benefits operation while satisfying those within the agency interested in a consolidated database.

Client Management Market Evolution

Despite what some may believe, significant differences exist between the Employee Benefits operation and the P&C operation. The most significant being that the Employee Benefits operation acts as a broker while P&C firms have agent relationships with a broader set of responsibility to those they serve. For example, P&C firms perform numerous financial functions on behalf of their customers including billing administration and special financing arrangements. P&C firms may also have underwriting and policy binding authority and often handle a wide-range of complex product offerings. Consequently, the P&C firm must track a broader set of customer data than the Employee Benefits operation.

Several technology vendors have evolved to manage the complex Client Management needs of the P&C organization. These include Applied Systems, AMS, Delphi, XDTI, and a hand-full of others. Between the three leaders, they control more than 80% of the P&C market. Conversely, the Employee Benefits business has seen no such market evolution. In fact, according to a StarNex Inc. survey of Employee Benefits brokers, the

dominant Client Management system is ACT, a non-industry specific system, with a 40% share of the market. Most of the Employee Benefits industry specific systems evolved out of the Personal Lines market and none has more than a 7% market share.

Commission Tracking

Many employee benefits brokers believe they are losing anywhere from 5%-15% in commissions each year because of poor tracking mechanisms. P&C systems are Accounting Systems and not Commission Tracking Systems. In a P&C System one must create a receivable if one wants the system to “expect” money. When commission is received from the insurers it gets matched against the receivable, but, as we all know, the amount paid doesn’t match the receivable because enrollment changes result in commission variances from month-to-month. P&C Systems typically cannot apply a Commission to a specific month nor do they have the ability to run the paid premium through the actual commission schedule to audit for accuracy of payment.

One might ask, what is the cost in lost commissions that results from managements desire for a single consolidated financial view? The reality is that one can have both an accurate tracking system and consolidated financial views.

Action Steps

It is highly likely today that most Employee Benefits operations are using a Client Management system designed either for personal lines or for the P&C business. While you know these systems don’t meet your needs, do you really know what your specific needs are? Before considering an alternative to your existing system, you must conduct a thorough needs analysis within your operation. The “right” system must satisfy your priorities. Based on our discussions with Employee Benefits employees, we have found four consistent themes:

- **Correspondence Tracking** – *Storing all notes, letters, outgoing and incoming e-mail, and appointment activities*
- **Data Management** – *Storing all information relative to clients and prospects in an easy-to-find place*
- **Document Management** – *More and more documents are received electronically. SPD’s, Renewal Letters, Policy Acceptance letters, all need to be stored and accessible*
- **Reporting** – *Whether it is renewal reports, prospect tracking, or production, everyone always needs reports.*

Case for/against a Single System

Once you have determined the specific needs of the Benefits Department, you must next consider how these requirements must be aligned with the needs of the agency. It is very likely that you’ll hear the owners of the agency say they must have a single system for the entire operation. We’ve found the principle concerns for a single system include:

1. **It's the best way to integrate commission tracking.** – While a single system makes it easier to report on consolidated data, there are ways to pass data back and forth among multiple systems to achieve the same objective. Forcing the use of a single system that is inefficient and results in lost revenue is often not the best financial decision.
2. **You can more easily cross-sell with a single system.** - If cross-selling is one objective, then one must focus on the problem and find a solution that enables cross-selling while fulfilling the basic everyday needs of the Employee Benefits business unit. For most people knowing the client name, existing lines of business, some size indicator like covered lives or payroll, and who the appropriate internal Sales and or Account Manager is sufficient. It is rare that one would try to cross-sell without engaging the individual within the organization who has a relationship with and knowledge of the client.
3. **Why manage duplicate systems?** - Many P&C firms are large enough to have a Systems Administrator on staff and are already networked to house another system. These expenses are already built into the organization. In the end this is a business decision and not a systems decision.
4. **Why lay-out more money for an additional system?** - While a new system will cost more money, it will more than pay for itself by ridding the operation of inefficiencies and equipping the Employee Benefits operation with the tools to more efficiently grow its top line. Also, in the past many agencies have wasted money attempting to modify their existing system to work in the Employee Benefits environment. Unfortunately, the net of this investment has been a realization that you can't put a square peg in a round hole.

Truthfully, most Agencies want consolidated accounting and only about 10 pieces of data about an account so that both business units are properly aware of each other's business. There are solutions to these challenges that can satisfy the objectives of both parties. However, one size does not fit all.

Solutions

Buy an existing system built for the business.

There are benefits and costs to all. Systems built specifically for the Employee Benefits business already include data fields that make sense and include updates that are suggested by others within the industry. However, such applications are typically not modifiable by each user. So if you have a requirement that does not match up with the system, you will probably either have to wait for a system-wide change or not get the change made at all. Also, most of these systems have evolved from the personal lines business and, unless you sell personal lines, there are a lot of unnecessary fields that get

in the way. These “off-the-shelf” systems tend to be the most cost effective way to go but have restrictions.

Building your own system from scratch.

Building your own system gives the greatest flexibility but typically is the most expensive. You’ll get what you want; however you won’t get the benefits of being part of a larger user group. In addition, someone within your organization needs to be skilled enough to tell the developer how to build the system. This sounds easier than it actually is. Many brokers have wasted a lot of time and money because they aren’t software designers. In the end, a home built system often costs more and lags behind in delivering the best technology solution.

Modify a Generic customer relationship management or contact management system

Systems such as ACT, Goldmine, SalesLogix, Pivotal, Clientelle, etc... fit in this category. These systems are designed to be easily modified for your business. They are flexible and usually have large install bases and can more easily integrate with other systems. The drawback is that one still needs to tell a developer specifically what to include in the system. These systems also can range widely in price and the development costs often exceed the actual cost of the software. However, in most cases this solution is affordable, flexible enough to meet your specific needs, enables you to control what is included in the system, and costs a lot less than building it from scratch.

Modifying the P&C System to Accommodate the Employee Benefits

If you are unable to convince anyone that you need another system, you should at the least lobby to modify the existing system. While you will be satisfying some within your firm for a single system, your enhanced system will likely fall short of satisfying all your objectives and will undoubtedly cost more than an off-the-shelf solution. Even if the existing system were easy to modify, which is highly unlikely, it takes experience and skill to define your requirements and integrate them into the existing system.

Conclusion

With fewer medical insurers in each market, commission schedules heading lower, and clients demanding more service, it will become even more important for an Employee Benefits business to operate as efficiently as possible. In order to do so, one must be equipped with the proper tools and technology to manage their business. This does not have to be at the expense of consolidated reporting, accounting, or cross-sell activities. Identify and prioritize the needs and then seek the solution that best fits the organization.

The solutions are out there. Regardless of what path you choose, we are confident that you will move substantially closer to satisfying the Employee Benefits business unit needs while satisfying the one-system proponents.

Don't let the tail wag the dog. Consider the day-to-day needs of the benefits unit first so that you can have the most efficient operation and continue your revenue growth.

About the Author

Joe Markland is a Principle of HR Technology Advisors and Past President of Benefits Technology Group (BTG). HRT is an insurance and technology consulting firm focused primarily on helping insurance brokers, companies, third-party vendors, and their customers, with evaluating and implementing technology solutions and e-commerce strategies. Joe spent 12 years in Group Insurance Sales and Sales Management before starting an insurance distribution technology company in January 1998. In February 2001 Joe founded BTG with a transition to HRT in August 2006..

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