Optimizing Voluntary Strategy via Realigned TPA Engagement and Targeted Investments

Given the growth of the voluntary market, traditional group insurers need a robust framework to implement their voluntary strategy, to allow optimal leverage of third-party administrators and to avoid the unsuccessful, endless cycles of continued investments into IT modernization programs.

Executive Summary

Growth in the voluntary/worksite market in recent years has been noteworthy as compared to the traditional group market that is nearing stagnancy. Such attractive growth has caught the attention of group insurers, leading them to hone their voluntary business and IT strategies and make forays into the voluntary market.

However, a detailed study reveals that insurers are challenged by people/skill-set deficiencies, convoluted processes and outdated IT topology, limiting their ability to launch new, innovative and competitive voluntary products. These entry barriers are making it difficult for them to enter this space, let alone to gain first-mover advantage over their competitors.

Outsourcing their voluntary products to third-party administrators (TPAs) to support key administrative business functions seems to be the most obvious choice for insurers to overcome the impediments for a quick entry into the voluntary market. However, what’s also needed is a strategy for optimizing TPA usage and bringing voluntary products back in house once the anticipated performance threshold is reached.

In an attempt to meet this intention, however, insurers are finding themselves in a Catch 22 situation in which they are perpetually and unsuccessfully investing in IT modernization programs, amid rising TPA costs.

This white paper analyzes these current state impediments and the TPA engagement model—including its deficiencies—and reveals how targeted investments through a robust voluntary framework could help insurers overcome current limitations and achieve the desired speed-to-market without being constrained by large initial capital outlays.

For the purposes of this paper, we have limited our analysis to traditional group insurers with voluntary offerings such as life, disability, accident, long-term care, etc.; healthcare products or insurers carrying these products were not considered.
Voluntary Market Growth Drives Traditional Group Insurance Shift

The compounded annual growth rate (CAGR) for voluntary life and disability products space has reached almost 8% over the past six years (see Figure 1), while the group life and disability employer-paid insurance products space grew at only 1% annually.

The high growth of the voluntary market is primarily driven by employers’ increased focus on benefit cost containment (which alone accounted for ~30% of employees’ compensation packages), an increase in disability incidence rates (that increased approximately 10% over the last 20 years) and unemployment.

It has been found that an estimated 68% of employees (i.e., an approximate 78 million prospects) do not own a voluntary product. Furthermore, according to a Prudential Insurance survey, roughly 52% of brokers who are currently selling voluntary products expect increased demand for these benefits over the next five years. These numbers speak for themselves – the large pool of available prospects, along with the growing optimism among brokers and employers, indicate that the voluntary market is poised for sustainable growth in the future.

In addition, with the introduction of public/private exchanges, an aging workforce and demanding Generation Z customers, it is natural that insurers will be forced to launch newer and more innovative products into the market quickly to stay relevant in the market space.

To stay ahead of the game, many insurers are undertaking diverse initiatives to enhance product speed-to-market, but are facing challenges in doing so. Among the key factors impeding some insurers’ ability to expand voluntary product offerings is the outdated legacy IT landscape which makes it difficult for them to meet current business objectives, let alone launch new voluntary products. To overcome these hurdles, group insurers are engaging with TPAs to realize and implement their voluntary strategies.

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The Voluntary Market Opportunity

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Figure 1
People, Process and Technology Deficiencies Enhance TPA Engagement

In the past, most insurers engaged in a multiyear business process-as-a-service (BPaaS) model with TPAs, typically tasking them with sales, quotes and claims adjudication/disbursement processes. But now, amid strong growth in the voluntary market, insurers are increasingly relying on TPAs in the areas of policy administration, billing/payment processing, enrollment, customer service and member data management.

The black blocks in Figure 2 indicate the areas where most insurers depend extensively on TPAs.

U.S. Insurance Workforce Projected Changes, 2012 to 2022

Greater TPA engagement is required by insurers to quickly launch voluntary products and to overcome internal challenges such as people/skill-set deficiencies, convoluted processes and outdated IT topology.

Resource Skill-Set Deficiency

Insurers are facing increased difficulty employing resources with key skill sets for launching and managing their voluntary products. As the market shift continues, we anticipate that this gap will further widen primarily due to high unemployment rates and aging baby boomers who will begin to retire in the next few years and leave behind vacant jobs. This void will be prominent in areas such as advanced data analytics, consumer behavior analysis and prediction, marketing communications at individual insured level, risk classification, billing, enrollments and claims services.

According to the Bureau of Labor Statistics, the aforementioned skilled occupations are expected to grow by an approximate 25% by 2022. This suggests that as the market matures and makes way for voluntary products, there will be an increased need for insurers to act on their resource skill-set deficit to prevent the supply/demand gap from growing deeper.
Convoluted Processes

Changing market dynamics, continued neglect of IT infrastructure development, shifting consumer needs and changing state and federal regulations have led to substantial amounts of manual work-arounds. Needless to say, these convoluted processes have led to problems such as increased turnaround time, reduced efficiency, increased operating costs and, consequently, decreased customer satisfaction.

Superior customer service is paramount for a successful voluntary strategy, but these complex and challenging processes reduce insurers’ operational efficiency, thereby impedying their ability to embrace a customer-centric approach. These challenges cannot be met purely by IT modernization; they must be viewed in conjunction with sourcing and process optimization strategies.

Impeding IT Topology

Most group insurers understand that their group benefits business operates on a suboptimal legacy IT topology with limited functionality from a capability and usability perspective. Additionally, these environments lack the ability to seamlessly integrate with new-age software, undercutting key business objectives, let alone the ability to launch new voluntary products. Moreover, group insurers realize that the existing topology requires significant upgrades to support new voluntary products in house and to power faster time-to-market with such products.

Inherent TPA Engagement Model Impediments

Although insurers are turning to TPAs to resolve their people, process and technology challenges, their multiyear engagements with TPAs to administer products and to bridge the gap in the short run is rife with inherent problems resulting from a lack of service differentiation, high service fees (as the number of insured lives grows), and inability to up- and cross-sell products.

High TPA Cost

Every service that is sourced to a TPA has steep cost consequences. As insurers increase their TPA engagement and source their policy management and services processes, they incur higher costs, sometimes as high as 6% of the premium, for products sold by TPAs. This cost is further loaded with expenses incurred through training, redundant processes for reporting, etc. In time, as the participation rates increase and products ascend the maturity curve, TPA costs multiply exponentially. According to our experience, the TPA engagement costs start low, but as the products mature the cost could grow exponentially in five years, costing as much as $10 million to $15 million annually.

Challenges with Up- and Cross-Selling

To attain profitability and stay ahead of the competition, insurers must explore up- and cross-selling opportunities. To achieve this, extensive analytical research should be conducted at the member level, to study consumer behavior and then tailor their sales strategy/product offerings as required. As insurers engage TPAs to administer new voluntary products, exploring up- and cross-selling opportunities with their existing voluntary customers, challenges are emerging. They include:

- Inability of customer service representatives (CSRs) to up- and cross-sell — and emphasize potential savings — due to lack of overall customer data.
- Un availability of member-level data: Missing member-level data as a result of product sourcing to TPAs is a huge roadblock for insurers seeking to analyze customer trends and launch new improved products that can bridge the sales gap.

Lack of Service Differentiation

Customer dissatisfaction due to lack of service differentiation has been a major pain point for insurers. A lack of direct contact with end customers short-circuits insurers’ ability to provide best-in-class customer service. Typically, TPAs who manage adminis-
Insurance services of multiple insurers tend to use standard practices and procedures. This causes insurers to lose out on service differentiation with voluntary products, where customers seek more information and expect better service, depending on the type of product purchased (i.e., disability, dental, life or accident).

Unsuccessful IT Modernization and Insurers’ Inability to Decouple from TPAs

Most insurers have realized that having many TPAs to service voluntary products is problematic. As a result, some have embarked on extensive three-to-five-year IT modernization programs to eventually bring their products back in house. The idea: Complete the technology upgrade so that after the product reaches its desired state of maturity, it can be reverse-integrated, saving TPA costs.

However, based on our observations, most IT modernization programs either fail to meet end-state objectives, or only partially meet them. Based on our experience working with leading group insurers, we have found that out of seven insurers analyzed, not a single insurer that initiated an IT modernization strategy has been able to achieve its desired outcome. Four of the seven insurers stopped their strategic projects due to either lack of funding and/or budget reallocation toward other high-priority strategic initiatives that took precedence; the remaining insurers subsequently changed their corporate strategic direction.

These failing IT modernization programs have put additional pressure on insurers. As insurers launch new voluntary products to stay relevant and competitive, they find themselves in an endless and vicious cycle of outsourcing new product launches to TPAs to enhance time-to-market on one hand and to invest in IT upgrades on the other. In addition, insurers are bound to find that bringing their products back in house is an arduous task due to cost and schedule overruns of their multimillion-dollar IT modernization programs. Eventually, these challenges will lead to misalignment of insurers’ voluntary strategy.

Given ongoing people, process and technology deficiencies, coupled with the inherent issues of TPA engagement, insurers need a robust voluntary framework to overcome the continuing misalignment of their voluntary strategies and failure of their IT modernization programs.

Suggested Voluntary Framework

![Suggested Voluntary Framework Diagram](Figure 4)
Framework for Successful Implementation of Voluntary Strategy

While there is no doubt engaging TPAs is an apt approach, insurers should attempt to bring voluntary products in house sooner rather than later, to more fully reap economic benefits while enhancing their competitive status.

To achieve this, they must rethink and realign their voluntary strategy to overcome their people, process and technology shortcomings and accelerate time-to-market without incurring huge initial capital outlays.

Our proposed framework recommends investments in key focus areas such as resource skill sets, process reengineering, technology upgrades in the areas of member data management, quoting, support systems and Web portals (see Figure 4, previous page).

Honing Internal Skill Sets to Optimize TPA Engagement

Marketing, selling and administering voluntary products requires specialized skill sets such as consulting, consumer behavior analysis, predictive modeling, underwriting based on experience data and servicing individual members. Overall, while insurers keep their voluntary products with TPAs through the short term, they should train and retain their internal resources on aforementioned skill sets so they can better handle voluntary products. A special focus should be placed on in-house and TPA sales skill sets, in-house underwriting (UW)/actuarial and in-house and TPA administrative skill sets.

- **Sales skill sets:**
  - **In house:** As insurers develop new voluntary products and divert their focus toward market research, brand messaging and advertising, they have a greater need to train their sales and marketing teams to leave their traditional group mind-set, conduct competitor analysis, study consumer behavior and market trends and, more importantly, better understand voluntary products and their benefits. They should also be equipped with consultative and advisory skill sets to educate individual prospects.
  - **TPA:** While the product is still handled by a TPA, there is an added advantage for insurers to conduct additional training on their voluntary products, educating resources on identifying prospects to enable up- and cross-selling.

- **Actuarial and underwriting skill sets:**
  This nascent and price-sensitive voluntary market challenges underwriters’ abilities to better classify the risk associated with each member. As indicated earlier, by 2022 there will be a great surge in demand for underwriters and actuaries according to the U.S. Bureau of Labor Statistics. To successfully meet this demand, group insurers should proactively change their recruitment strategies and invest in training their existing workforce for these profiles. Underwriters need to be equipped with the ability to assess risk at the individual member and group levels, especially with the limited consumer (member) data that they might possess at the time of sale.

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Additionally, due to the increased use of private/public exchange platforms to connect insurers’ voluntary products with prospective customers, there is a greater need for underwriters and sales teams to collaborate on more effective pitches. This can be achieved only if both teams hone their core skill set and, simultaneously, “stand-in-the-shoes” of the agents/brokers, and vice versa.

Process Deficiencies: Process Reengineering to Improve Operational Efficiency and Customer Experience

Insurers should study their existing as-is processes, couple their findings with performance objectives and trends, construct gap analyses and frame future-state to-be processes. Future-state processes should focus on a reduction in cost, cycle time and error rate while, at the same time, improving the overall customer experience.

- **Business process reengineering (BPR):** Most group insurers’ IT infrastructures are riddled with inefficiencies leading to higher process overhead costs and numerous customer service pain points (e.g., missed SLAs, excessive call-handling time, etc.). These hurdles restrict insurers’ abilities to fully tap the growth opportunities present in the voluntary space. For the people- and document-intensive group insurance landscape, process reengineering is
an ideal solution to overcome existing inflexibilities, improve customer service, generate operational improvements and yield savings. Sales and distribution, UW and policy implementation and other administrative functional areas (e.g., billing, enrollments) should also be assessed for process reengineering opportunities.

**Improving IT Landscape to Meet Short-, Long-Term Goals**

The following targeted IT investments can help insurers attain the desired speed-to-market and mitigate risks as they move to enhance their competitive position in the voluntary products space.

- **Member data management**: The ability to house member-level data and perform data analytics has become a prerequisite for traditional group insurers seeking to enter the voluntary market. To enable this, insurers should establish an effective member data management (MDM) strategy and invest to build an intelligent data warehouse to better price, report and service individual members. Also, to better up- and cross-sell, extensive analytical research should be conducted at a member level to study consumer behavior and tailor voluntary product offerings. MDM would serve as an input to various teams:
  - **Product and marketing teams**: Enable the product team to build products and marketing to create campaigns that better address specific census demographic market needs instead of one-product-fits-all.
  - **Underwriters**: Research anti-selection trends and adjust pricing accordingly.
  - **Actuaries**: Perform analytical evaluation of the current in-force policy book to anticipate future incidence trends and enable development of more sophisticated pricing models that ensure rate accuracy and persistency such that the product prices remain fair and competitive.
  - **Service teams**: To enable better billing and enrollment services at the individual member level.

- **Quoting**: Insurers should aim to equip brokers, sales analysts and underwriters with tools and technology to generate quotes quickly and accurately. To achieve this, insurers need to enhance or build a new quoting system that focuses on reducing turnaround time and allows the broker/customer to receive quotes online. Key capabilities that should be taken into consideration include the ability to support the new voluntary pricing model, pre-populate data from a request for proposal (RFP), leverage claims experience to a structured format where possible, format/manipulate census data in the system and set up plans based on RFP and straight-through processing for the renewal of micro (two to nine members) and small (10 to 99 members) market segments through batch rating and quoting of policies.

- **Support systems**: Insurers should focus on modernizing systems/operations that address customer services such as enrollment, billing and claims. Although these systems are not on the critical path to enhance time-to-market strategy, they are an absolute requirement for gaining a competitive edge in the market.

- **Web portals to enable self-service**: Our study found that there is an imminent need for insurers to develop high-performance self-service Web portals that are well integrated with other business functions such as marketing, customer service, billing and claims to enhance the overall customer experience. Key consumer capabilities to consider are:
  - **Broker**: Self-service capabilities such as online registration, downloading or ordering forms and marketing materials and reports, viewing commissions and case status tracking.
  - **Employer**: Self-service capabilities such as loading eligibility information, viewing, setting up and making payments, viewing claims status, changing details and selection, seeing benefit ratios and generating health and wellness reports.
  - **Employee**: Self-service capabilities such as enhanced enrollment capabilities, changing beneficiaries, verification of benefits, submitting and viewing claims status and general product education.

Future-state processes should focus on a reduction in cost, cycle time and error rate while, at the same time, improving the overall customer experience.
Looking Ahead
With growth in the voluntary market expected to accelerate, insurers should consciously decide to optimize their voluntary operating models, which includes IT modernization, TPA engagement and sourcing. Moreover, with renewed focus on IT investments in their group businesses, it is important that TPA and IT strategies are aligned. Unless changes are made, insurers will find the increasing operating/TPA costs unmanageable. Hence, the scene is set for traditional group insurers to implement their voluntary strategies by using the defined framework.

Apart from allowing insurers to achieve their voluntary objectives of enhanced time-to-market and ability to effectively bring products back in house, this framework allows insurers to reap benefits such as improved efficiency, better customer service and increased participation and conversion rates.

To ensure the successful implementation of a voluntary framework, insurers should first undertake a current state business/IT process assessment, define key economic objectives and draw end-to-end business process flows to identify and segregate key process inefficiencies, system capabilities issues and skill-set issues to enable subsequent, but targeted, business and IT investments.

Footnotes
5 GenRe Insurance Annual Market Reports from 2008 to 2012.
9 Generation Z is one name used for the cohort of people born after the Millennial Generation, from the mid-to-late 1990s through today, http://en.wikipedia.org/wiki/Generation_Z.
11 TPA expense calculation was based on our analysis of various group insurers’ reports and several assumptions such as a TPA fee of $4-6 PEPM, up to 1,000 sold cases in five years and 2-3 million lives enrolled.
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