BY GIL LOWERRE AND BONNIE BRAZZELL

Climbing up the curve

Brokers selling voluntary can be divided into two camps. The first includes traditional worksite/voluntary producers: classic brokers, specialist brokers (enrollment companies) and sophisticated (in terms of voluntary) employee benefit brokers. These firms have been producing business for years, offer an array of services either in-house, or through partnerships with other firms, and mix and match products from different voluntary carriers, often on a combined billing platform. Together, these firms produce about 20 percent of the brokerage business in the voluntary industry.

The other camp includes the more recent entrants: employee benefit brokers who are new to voluntary or who rely heavily on the expertise of third parties. Some will partner with full-service carriers who can bring marketing support, enrollment, a full portfolio, and billing, while others partner with specialist brokers (enrollment companies) who can arrange a more diverse package of products and services for their clients.

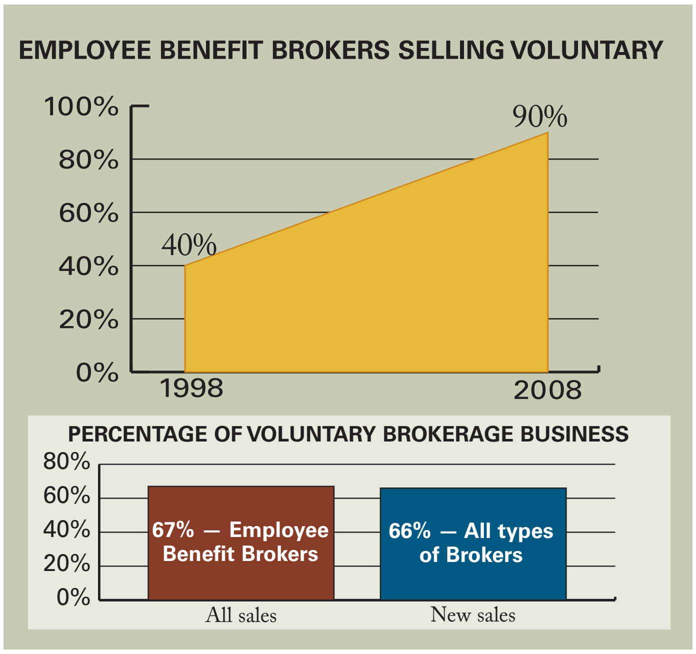
For the last 10 years, employee benefit brokers have been moving into the voluntary arena, a few aggressively, but most cautiously. A large number, even today, sell defensively, offering voluntary when asked by their employer client or when a worksite agent enters their account. A decade ago, our surveys showed that roughly 40 percent of employee benefit brokers sold voluntary. Today, more than 90 percent do. That influx, slow and steady, has caused the production of this group of producers to grow to 67 percent of voluntary brokerage business in 2007 (and all types of brokers produce 66 percent of the new sales).

But the gains have been predominately due to increasing numbers of these unsophisticated (in voluntary terms) brokers putting their toes in the water. And now that we're approaching 95 percent penetration, gains from new entrants have slowed. These brokers will continue to grow their share, but in the future, that growth will be driven by these brokers moving up the learning curve, becoming more sophisticated about voluntary rather than by more firms starting to sell voluntary business.

Lots of players have a stake in how these brokers will behave as they move up that learning curve. On average, agents of worksite carriers get between a third and a half of their new business from unsophisticated brokers who need a full package offering. Specialist brokers depend on this type of business, and even classic worksite brokers have been cultivating partnerships with these new entrants on the local level. Full-service worksite carriers obviously have a lot at a stake while group and medical carriers with voluntary portfolios are betting they can build and retain loyalty among the brokers that already do business with them.

Will these new producers take control of their voluntary business, or pass that control on to a third-party carrier or specialist broker? The answer really depends on their view of the voluntary side of their business. For those who continue to see it as a defensive play, partnerships may make sense. A bit higher on the learning curve, if they see voluntary as a cross-sale opportunity, a product line to be offered to their employer-paid clients, control may become more important. And at the top of the curve (sophisticated voluntary brokers) these products are seen as full members of the benefits portfolio, right next to employer-paid, medical, and other coverages. The choice of employee-paid or not is not one regarding a separate portfolio, but one regarding a different need the employer client is trying to fill. And for those brokers, control is every bit as essential as it is with the products they have historically sold.

For these brokers, the client value proposition includes a heavy dose of shopping, in addition to needs analysis, benefit planning, implementation, etc. And the same skills they have used in their other lines will be applied to voluntary. They will learn the marketplace, become educated on the services and players, and will strive to put together a best-in-class offering for their clients. And both they and their clients instinctively understand that not every company is best-in-class in every product, service, and administrative function. Mixing and matching will be a hallmark of the sophisticated voluntary broker in the future, as it is today.



Will they align with a full-service voluntary carrier for a complete package solution? Not if they're truly sophisticated — they'll select only those components that are most competitive. Will they simply go with their existing medical or employer-paid carrier relationships? Only if those offerings are truly best-of-breed. Will they outsource the expertise to third-party brokers to make all the decisions for their clients? No sophisticated voluntary broker would.

It appears that moving up the voluntary learning curve will require developing the in-house expertise to deliver on the promised value proposition. Based on that expertise, these brokers might "own," "rent" or "borrow" the actual products and services from great partners. But the expertise will be theirs.

We fully expect the great majority of employee benefit brokers to keep climbing the curve and to continue growing their share of the dynamic voluntary marketplace.

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