

TrustLayer, Inc. - Senior Vice President at USI Insurance Services

Interview conducted on November 10, 2022

Topics

Insurance Industry, Digital TPA, Workers' Compensation, Billing Systems, Claims Management, Brokers, Disruption

Summary

A Tegus Client is interested in launching a new digitally forced, digitally native TPA to automate certain parts of the work and operate at a lower cost basis. They speak with a Senior Vice President at USI Insurance Services who explains that TPAs need to be licensed and the specific product lines depend on what is being sold. The conversation also touches on the complexity of the billing process and the different billing models used by TPAs. The Senior Vice President also mentions a software company called TrustLayer that is disrupting the industry of managing certificates of insurance, which uses blockchain technology to allow everyone to review documents at the same time and ensure their accuracy.

Expert Details

Senior Vice President at USI Insurance Services. The expert is an insurance broker with 40 years of experience.

Senior Vice President at USI Insurance Services. The expert is an insurance broker with 40 years of experience. The expert's business is split between 3 major endeavors. Firstly, they are a broker helping startups with creating and managing their business insurance policies. Usually Liability coverage, Workers Compensation, D&O, E&O, Cyber Security Insurance and benefits. Secondly, Advising insurtech startups from founding to funding or launch: www.wthfaye.com www.safetywing.com www.trustlayer.io are just a few clients. Finally, advising and acting as a broker for a new generation of Remote Employers OysterHR.com and Safeguard Global are clients.

Q: Do you have experience in hiring Claims TPAs to process personal or commercial auto claims for your company?

A: Yes have over 30yrs experience doing this, although in reality it's very hard finding good 3rd party claims providers. They're all very different with different expertise.

Tegus Client

Thank you for taking the time to speak with us. But just some context for this call. I'm exploring opportunities in the TPA space and sort of the core thesis that we are trying to evaluate is if there is an opportunity to launch a new digitally forced, digitally native TPA. And that tone call is fairly loaded. So as probably as we talk more, I can explain a little bit more where the digital piece comes in, but the it's a very manual and human heavy business. And so the question is, can we use technology to automate certain parts of the work that a TPA does, which enables the TPA to operate at a lower cost basis, even though they're charging a specific fee to the MGA or that they have working with. And so before we dive deep, we've obviously looked at your background.

Maybe just a question to start is, what is your experience working with TPAs in the past, specifically because you worked at a brokerage, we've not made that relationship between brokers and TPAs in the past. So maybe you can sort of help us enlighten us on what that sort of connection is. But so please feel free to use specific terms or jargons specific to the insurance industry. We should be able to handle it or understand it.

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Senior Vice President at USI Insurance Services

Well, it's interesting what you're talking about, and it's something I actually have had a lot of thoughts about recently because of the work that I do. So let me give you a little bit more background, a little more color about who you're talking to. I have been in the TPA business since 1986. When I stopped working for other people, other companies and started working for myself and for my family. I created a nonunion TPA that did nothing but nonunion work. So I spent 15 years, consulting start-ups that are now known as insurtechs and part of the insurtech journey that has been helping people to come outside of the insurance space. The insurance world, understand how to navigate distribution relationships, partners, reinsurance, incubator, and everything to do with people who are outside the insurance industry.

Coming into the insurance and being able to navigate it in a way that makes them successful faster. So companies like withfaye.com, which launched in April and is now the number one travel insurance company in the country, companies like SafetyWing that have really exploded helping digital nomads to live all over the world. Those are the customers that I've helped launch. And so these companies that I'm working with are essentially forced to become a TPA, forced to get licensed as a TPA in the United States, which takes about a year. To get all that done with all the regulations that are there in the 37 states that have TPA license requirements. So it is a good idea. It's something that in my head have been toying with and the customers that I work with, the investors that I work with are talking about it. So yes, you're on to something.

Tegus Client

Okay. Can you talk a little bit about this licensing angle because the way we've understood this is the individual employees that work at the TPA need to be licensed, but not that the corporate entity that is the TPA needs to be licensed at the corporate level. Is that an incorrect understanding?

Senior Vice President at USI Insurance Services

That is a monumental mistake that would get you shut down and a cease-and-desist order.

Tegus Client

Right, can you explain? And what kind of licensing, which particular product lines are the ones that we've looked at.

Senior Vice President at USI Insurance Services

It depends upon what you're selling. It depends upon what product you're selling. If you're selling a life and health or a travel insurance product, you have to get licensed in almost 37 states now. In some of these states.

Tegus Client

I understand that the insurance carrier MGA needs to be licensed.

Senior Vice President at USI Insurance Services

No, TPA has to be licensed. The TPA has to be licensed. The TPA has to be licensed. In fact, what you're talking about is what's known as an adjuster license, okay? And people that work for your TPA have to have adjuster licenses and even that is kind of a monumental difficulty because if you have the wrong license, it doesn't apply to the other state. There's a great firm, and I'll point you in this right direction right now because I want you to talk, don't believe words I'm saying. Go talk to Westmont. Westmont does nothing but get companies licensed as agencies, as managing general agents or surplus lines agencies, as insurance carriers and of course, as TPAs. They will put you in the right direction and they will cite for you all the regulations that you need to know in order to make yourself legitimate.

Tegus Client

Got it. Okay. Which are the specific product lines that you typically focus on? You touched on a broad spectrum of insurance covering life and P&C. What we are specially looking at is P&C insurance. More specifically within P&C, those particular kinds of product lines where everything can be best congested and

watch being done. Maybe an example of that. Home probably is not because you need an army of on-site adjustments as working with the core company. But with your specific background and specific product line as we speak to it, which one that what you're reporting to?

Senior Vice President at USI Insurance Services

On the P&C side it's workers' comp, it's paying auto claims, it's paying diminution of value claims, whatever it might be. There is debate that you may not need as many licenses as you would for life and health where it's much more sensitive. But if it's a consumer product an auto or homeowners, then it blurs the line a little bit because there's so much regulation and regulatory bodies looking to find you that it kind of goes back to the "Hey, there are almost 46 states that have some regulation regarding a license." If you just Google TPA licensing, the first kind of it's for you. The first entry is a company called First Consulting, and their first line is as many as 46 states may require licensing or other regulatory filing in order to access TPA or third-party administrator. That's the first entry.

Tegus Client

Got it. And you are now advising startups. Is that via your role in USI?

Senior Vice President at USI Insurance Services

I'm on my own. I left and I help right now about a dozen start-ups where I'm a shareholder or I'm on retainer or I'm a mix of both. And so the start-ups that I help like trustlayer.io, LossPay, SafetyWing, withfaye. All these different companies are all people that came outside the insurance industry, and they need somebody to ask questions to be their advocate because typically when you go into a meeting with another carrier or not somebody in the insurance business.

And if you don't have somebody with an insurance background, they really don't take you seriously. So that's why I work with so many people because there are so many really great people now out there that have great ideas to make the insurance industry better, whether it be a digital TPA idea or some kind of machine learning AI idea to make underwriting faster, to deal with unstructured data. There's a lot of wonderful intelligent people out there that are looking to make our industry better and monetize that and make a lot of money.

Tegus Client

Got it. So let's look at workers' compensation for a second. If someone is offering TPA services in the workers' compensation space, who will be the selector or buyer of the services of the TPAs? Is it the MGA or the carrier on whose paper the MGA is selling policies?

Senior Vice President at USI Insurance Services

It's very interesting because you have quite a few startups, companies like Pie insurance, Omaha National, even an Employer's Health has only been around for 20 years for employers. So you've got all these different people out there that are in the business of being an insurance carrier. But then you have a lot of people who say, "I don't want a carrier, I want to create a captive." I'm a large employer of a casino or I'm a manufacturer, and I understand what I'm doing, and they go look to hire an outside TPA or their own TPA, they create their own TPA to pay their own claims. When it's an MGA, most managing general agencies are wholesalers, and they're typically reselling what already exists to a willing audience who's willing to buy what they're selling or at least entertain what they're selling.

So most managing general agents who are out there are typically reselling a fully insured product. What you're talking about when you think about MGAs, as you're thinking more of program administrators, people who come up with an idea or a specific program or specific niche to market to that niche and do it with quota sharing or a reinsurance agreement or somebody who's a fronting carrier for them and a combination of all of the above.

Tegus Client

Got it. And so in the program administered or example that you mentioned, would that company be the one that would avail the services and the TPA to process gains on their behalf?

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Senior Vice President at USI Insurance Services

Yes. Because the program administrator is to wear a lot of hats and they're not really experts on all those hats. What they're usually really good at is convincing a bunch of people from a like-minded group, let's say, there are a whole bunch of hotels and restaurants or a whole bunch of building companies, construction companies to get together to try to get a better deal. So that they're good at. But then all of a sudden, they look at all the different pieces of the puzzle from paying the claim to subrogation of the claim to the licensure and regulations, all those different things once they start digging deep into what they really have to do in order to execute on the idea, they find out that they're not going to wear a lot of those hats themselves, they'll need third parties to do it. And that's where something like your idea of a digital TPA would come in.

Now it's not just the TPA who pay the claims. It's not just the TPA who pay the claims. You need a TPA in this example of workers' comp to do the billing accurately, to integrate with the payroll firms, right? Develop API to talk to ADP into Workday and all the different systems that are out there and then forced to do the audits, right? Because at the end of every year, you've got to go back out to your customers and then say, "Okay, we took your money, and we understand what your payroll was, was this all correct?"

Tegus Client

Got it. So that's in the workers' comp space, where you would have to connect with the payroll? Maybe one more question and I'll come back to this topic. The concept of captives, who typically processes claims for captive and you picked a religious example, you're a large employer, you keep your workers' compensation risk captive, who typically processes claims for that captive?

Senior Vice President at USI Insurance Services

In many cases the reason they're setting up the captive is they think that it's going to be a financial win for them, some kind of windfall. They look at claims as an afterthought because they don't really believe that they'll have claims. So when they, "Oh, my gosh. We actually will have to process to claim. Well, how are we going to process this claim? Are we going to hire an admin person who's going to be in-house to pay the claim?" Well, then, that all said, well, does that admin person understand medical coding?

Do they understand adequate reserving for the claim? Do they understand how to close out a file, what to do if an attorney sends them a letter disputing the claim? I mean, it starts to become down the rabbit hole, and then they decide, "Oh, maybe we do need a third-party administrator, somebody who has done this before, knows how to do this" and then they go looking for a TPA.

Tegus Client

That makes sense. So let's start from super basic. If I have limited knowledge about insurance, I don't understand licensing and other aspects in this industry, how would I go about starting a digital TPA? And let's assume I picked one line, we've talked about workers' comp, let's sort of go deep into workers' comp. How do I start a workers' comp TPAs as ready to go?

Senior Vice President at USI Insurance Services

Many people go to Upwork. They go to Upwork and they put it an add in for somebody who's a workers' comp administrator. I swear this is true. Or they'll go to LinkedIn, they go to where they know to go to look for somebody if they don't know where to go, right? So they'll go to these places, they'll get frustrated and then they'll Google it, and they'll find a TPA and they'll set up a meeting with TPAs and they'll find out that they're really out of their depth and then they'll try to find somebody that they know that knows insurance.

So they'll typically go to their insurance broker, somebody that they bought insurance from before, right? Well, that person doesn't know anything about it. That person only knows about how to sell the insurance that they know how to sell. And they kind of try to sell that person, a workers' comp program that's already existing that never was going to work because it didn't satisfy them in the first place, which is why they wanted to create a captive. I mean it's kind of sad really.

I mean, it really happens. But eventually, they find somebody. They'll find the right person who understands how to create a captive. They'll sometimes talk to a law firm. And that lawyer will make a bunch of money advising them because they've set up captives before or they've had experience negotiating with insurance

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companies before, fighting insurance companies, doing M&A with insurance companies, but they literally will spend almost a year trying to figure it out. And they'll meet somebody and they'll start going to insurtech events. And there's literally a universe of insurance people out there like me who can help them.

Tegus Client

Oh, but the question was how would one start a TPA? Not how would one start a workers' comp insurance.

Senior Vice President at USI Insurance Services

Well, in order to start a TPA, first thing you'd have to do is you'd have to create the entity, you'd have to get licensed in the state that you're operating. Maybe that state like California is really easy to do. It's actually just a couple of grand and you're up and running. And then you would look for a system, there's a lot of software systems that are out there that are really robust that can do almost anything, whether it be Majesco or OneShield or Duck Creek or Guidewire. There's a lot of different systems out there that exist to start your TPA, whether it be billing all the way to claims.

And then they will build up for business. And you don't go set up a TPA unless you have an opportunity. Somebody is saying, "Hey, I'm looking for a TPA because I want somebody to pay my medical claims. Or I want somebody to do the dental claims for me or the vision claims or I want sort of you to do the HRA for me, the HSA for me or the COBRA administration or the workers' comp or pay for my auto claims for me because I've got a fleet of 5,000 vehicles and we're self-insured." And I'm looking for somebody new to do that for me.

Tegus Client

Got it. But is it the same way that people go to brokers to get insurance that isn't the concept of people go to a TPA broker to find the right broker for them? To find the right TPA for them? That concept, do they do that?

Senior Vice President at USI Insurance Services

That's what happens, yes.

Tegus Client

Got it. Can you talk a little bit about what you mean by a billing TPA? So are their TPAs that just handles kind of billing, not the entire claims, adjustment process? Is that what you're trying to imply?

Senior Vice President at USI Insurance Services

Yes. Yes, there's TPAs to do just one thing. Recently, one of the customers that I'm helping that's based in Japan we're researching TPAs, literally as we speak, right? And we reached out to several TPAs that looked good to us based on Googling and reviewing their website. We added our pitches, they pitched us and we found people that we like. And then we said, "Okay, we want you to demo your system for us." Well, they couldn't do that. They wouldn't show us how their system works. And it was the weirdest thing. Well, can't you just have a claims person on Zoom and have or show us the screen and just show us how you enter a claim, show us how the system adjudicates the claim, show us how you pay the claim. They couldn't do it.

Tegus Client

And why?

Senior Vice President at USI Insurance Services

They wouldn't do it. I think they thought that we were trying to steal from them or something. I'm not really sure why they turned us down for this.

Tegus Client

Okay. What is the billing TPA? What does that make your business vouching?

Senior Vice President at USI Insurance Services

So I work with a lot of international, what are called employers of record, and they hire people from all over

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the world, right? So they work with multiple insurance companies that are local. They work with Bupa in England, they work with Cigna in Spain. So dealing with 80 different insurance companies billing you for health insurance is quite a pain. Doing the billing reconciliations is quite a pain. So they hired a TPA to get all those bills. So all those insurance companies bill one person in Texas. This company takes all those bills, make sure that they're correct and then present the customer with one bill for them to pay.

The same thing happens here in the United States, where you might have somebody who has employees in several different states where they may have Kaiser in one place. They might have Cigna in another state. They might have Blue Cross in another state, et cetera. And they just want one bill. They don't want to be dealing with all those bills on their own, dealing with all the applications on their own. They want one person to manage it for them. And there are people who quit, they want them to do the code before them as well to handle that part of it. So yes, premium reconciliation or premium rebilling.

Tegus Client

Got it. Is that a really complex process? It sounds like were adjusting an auto claim end to end it's fairly complex because there's a lot of steps involved. There's a lot of customer communication that's needed. The particular example that you just gave this seems more like an aggregation of bills to create one master bill. What's the complexity in this particular scenario?

Senior Vice President at USI Insurance Services

It's just accounting. All of this is accounting. It's not complex. You want to do that yourself and dedicate your own people to do it internally? Or can you pay somebody five dollars an employee a month on your billing and that's cheaper to do?

Tegus Client

Got it. Got it. The TPA that you worked with, how were they typically charged for their services? Is there like a common billing model? Is it a flat fee or by percentage of premium? What's the common billing model with TPAs?

Senior Vice President at USI Insurance Services

It's really whatever the market will bear. It's anything from a per employee per month, PEPM, to a percentage of savings, especially if you have a subrogation team that after everything has all been said and done, you have a group of paralegals, that's the word, go after insurance companies say, "Hey, by the way, we read your contract, you're supposed to pay a percentage of this claim that we've already paid. Can you send us a check for \$100,000, right?" And they get the \$100,000 in. And typically, with subrogation, you can take as much as \$0.20 of every dollar that you've gotten on behalf of your client and keep that. So if you got the \$100,000 from the insurance company, you get \$20,000, the client gets \$80,000, everybody is happy.

Tegus Client

Got it. You mentioned that you work with a company called TrustLayer. They look more like a software company than an insurance engineer.

Senior Vice President at USI Insurance Services

They are a software company.

Tegus Client

Got it. So they're not really using any TPAs. So they're not really engaged with people?

Senior Vice President at USI Insurance Services

But if you look at the industry that they're disrupting, this is serious. People who manage certificates of insurance, it's a piece of paper. So let's say you're the Rockefeller Group and you own buildings all over the United States, nobody is going to get those keys to the office that you're renting without proving that they have insurance first. So the person is renting the spot, sends in the certificate of insurance and somebody at the Rockefeller Group has got to look at it and say, "Oh, this is good insurance or they need to pick up the

phone and call the insurance company to make sure it's real" and then say, "Okay, yes, you got insurance.

Here's your keys." And then every year, say, "Hey, did you renew your insurance? Is it still in place? Because if you didn't renew your insurance, you're breaching of your lease." Doing that with paper is a TPA job. And so there's literally all over the country. That's probably, I would say, 1,000 companies that manage certificates of insurance.

Tegus Client

On behalf of companies and corporations and others? And so what roughly is they're building software around that.

Senior Vice President at USI Insurance Services

Yes. It's a brilliant TrustLayer's a brilliant idea because it uses a blockchain quarter three technology, which allows everybody to be on the same platform at the same time reviewing that document to make sure it's correct and it integrates with the carriers. So the piece of paper that you're getting can be verified.

Tegus Client

Got it. Got it. Makes sense. So these are all the questions I had. Thank you very much for your time.

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