

Gallagher Bassett - Senior Vice President at USI Insurance Services

Interview conducted on November 01, 2022

Topics

Sales Strategy, Technology Platforms, Network Access, Profitability, Brokers, Health Insurance

Summary

The Tegus Client speaks with a Senior Vice President at USI Insurance Services about the TPA market for SMBs. The market is fragmented with no dominant players, and carriers have had no interest in innovating due to Obamacare. The conversation also covers macro trends impacting the TPA market, including government interference and the emergence of self-funded plans. The expert mentions key players in the TPA market for companies with 100 to 1,000 employees and emerging players in the HSA and MEC, COBRA type plan market. They also discuss what makes a TPA stand out to brokers, including offering multiple RBP vendors, good service and reporting, and differentiated technology claims platforms. The Senior Vice President suggests contacting the Society of Professional Benefit Administrators for more data on margins.

Expert Details

Senior Vice President at USI Insurance Services. The expert has about 40 years of experience in this space and can speak to claims processing technology and health plan designs.

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: Can you speak to the claims processing technology employed by SMB-focused TPAs?

A: I owned a TPA for 20 years. It's the same as large group except the reporting.

Q: Can you speak to your experience designing health plans for self-funded SMB employers and select TPAs as part of your plan design?

A: Yes I have 40 years of experience.

Tegus Client

Hello, thank you so much for taking the time to meet with me today. I'm looking forward to hearing from you about the TPA market. So maybe to start, I'd love to just hear a little bit about your background and experience, and then we can kind of dive into some more detailed questions.

Senior Vice President at USI Insurance Services

Sure. I've been in the employee benefits world for over 40 years. I started off as an insurance company representative working for the Travelers Insurance. Then went to work for a partnership between New York Life, Willis and a hospital company, putting together HMOs and PPOs from scratch.

Then I went to work for my family business, that's a very large TPA for labor union trust funds. I had no

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interest to work with unions. So I convinced my uncle to set up a separate company that did nothing but nonunion TPA work. We marketed directly to businesses as well as through insurance agents and brokers, associations, anybody who talked to us.

We really made our name in the cafeteria benefit world. We were the first cafeteria benefit Section 125 administrator in the country and then COBRA administrator, one of the first in those as well. Then started doing self-funded dental, vision, became a brokerage, created a SaaS company that did HR benefits, payroll via the web 20 years before Zenefits, which was on a napkin.

So that's my background, is seeing things before people see them and been really fortunate to be able to do that. Now what I do is I advise mostly insurtech startups with a very heavy influence on employer of records like global employers of record, like remote.com, Oyster HR, Deel, Skuad, Multiplier, all my clients.

Tegus Client

Well, great. Well, can I get your perspective on the TPA market for players that are servicing SMBs, kind of 100 to 1,000-lives markets? We're just trying to get a sense for the size and kind of industry dynamics that are impacting the growth rate of this specific segment of the SMB market.

Senior Vice President at USI Insurance Services

That market has always been a very interesting market from the standpoint of who has been successful and who has not. For years, you had carriers that addressed that market and did that very well, carriers that no longer exist. I mean companies that back in the '80s, '90s were dominant players, mostly from Canada, believe it or not, Great-West Life, Canada Life, Manufacturers, Northwestern, National from the U.S.

All were very good companies. Lincoln National even was doing this and being able to offer TPA plus reinsurance services, utilization review monitoring, discounts with their networks, soup to nuts, right? And so what ended up happening is Obamacare just completely wrecked any innovation in our country.

So for the last really a dozen years, nothing has been possible. But on the edges, the carriers have had no interest, no carrot to innovate, no reason to. They're making billions in profits. Why should we do anything different? I mean just we have an e-ticket, things are great.

So now what you're seeing even or the carriers that were playing in the work site marketing world are now extending themselves into partial self-funding. Companies like Nat General, Allstate, et cetera, being able to offer something for that market, calling it level premium or minimum premium, et cetera.

And then in the TPA world, the traditional TPA, which is mom-and-pop-owned or some of them which are PE firm-owned, are focused on this market. But you also have some very interesting Blues-owned companies that have TPAs where they are selling to employers. So it's really, right now, completely fragmented. There are no dominant players.

Anybody who wants to enter can, there's no barrier whatsoever to entry. In fact, because the distribution channel, which is insurance agents and brokers, and benefits consultants desperately need something to talk about, because they have nothing to talk about, that the other person down the street can't talk about. If there's somebody who has a better mousetrap, people are willing to listen.

Tegus Client

So just to be clear and to clarify structure of the market for the SMB employer, there is a level premium mom-and-pop, PE firms, the Blues, those are the three sort of key players that are servicing the SMB market, is that correct? And can you clarify that first?

Senior Vice President at USI Insurance Services

Yes. That's a three-tiered relationship. Level premium is this idea that your costs will stay the same from month to month to month, and that at the end of the year, you'll either get a check back from the carrier because you've had really great claims experience or you don't get anything.

They're just going to call it a day and give you a renewal that will take into account next year's potential

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claims and what they think next year you should be paying. So it's for the smaller SMB customers who really don't want to manage benefits, who really don't have time to educate their employees, but just want a financial instrument that can save them money, it makes good sense.

Tegus Client

I guess, your point is the market is very fragmented because you had to show an allocation of segmentation with these three tiers. Would you be able to provide an estimate on share?

Senior Vice President at USI Insurance Services

Yes. I would say that your little regional mom-and-pops have a good following of the local, family-owned independent brokers that do speak to the SME. I mean that's where they play, because your Marsh-es, your Aons, your Gallaghers are not allowed to do that. They're not allowed to write customers that are small, because it's not generating enough commissions for them to deal with the business.

They have a minimum commission level they have to have. So they're not supposed to play in that level, but they do sort of. But, that's not where they're going to shine and look their best. I don't know if you know about BrokerTech Ventures.

BrokerTech Ventures is the VC fund at the top 15 family-owned and independent brokers out there. So it used to be like ABD, but now is Newfront, Graham & Company, NFP, those types of people that are out there. Those bigger brokers do a really great job of working with that 100 to 1,000 employee segment. So those are the brokers. And they're not competing with the TPAs.

Because they're not a TPA. There was some talk that some brokers may have an investment in one or they may in the past had owned one or bought one, but it didn't go up. It's not good at managing them. That's not what they do. So there really is a line, right, the separation between a TPA, third-party administrator, and the brokerage. Now, you'll see some brokers will offer HR services or COBRA services, but usually, that's with a partner. They are not doing that themselves.

Tegus Client

Got it. So you were talking first about share, and you said the local following, the mom-and-pop and PE, what about the level premium?

Senior Vice President at USI Insurance Services

And then you have your carrier TPAs, your national TPAs.

Tegus Client

So that's the fourth tier that's also servicing the SMB market?

Senior Vice President at USI Insurance Services

Yes.

Tegus Client

So national carriers. Can you talk about just like in terms of this structure, the mom-and-pop, level premium, Nationals and the Blues, like what is their differentiation in terms of reaching this 100- to 1,000-lives player market?

Senior Vice President at USI Insurance Services

So where they're strongest, obviously, is with local service and the ability to do special discounts with local hospitals, local doctors, medical centers that the nationals can't do, right? So they might have a special network of local hospitals where they come with a better discounting structure or payment per diem basis or whatever.

But that's really hard to do when there's best most favored nation contracts out there where the Blues say,

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"look, you win any contract with anybody that's better than what we have, we get that same contract, right?" So when you're talking about TPA, you're really talking about service as far as paying the claims on behalf of the employer that's hired you to do it.

And you're talking about not embarrassing that employer because really they made the choice to hire you and if an employee goes to a hospital and the hospital says, I've never heard of this insurance company or they call and they find out that you're not eligible, it's just a horror show. So service is really important.

And then, of course, reporting, and having a very good software system that can report what was done with those dollars, where they went, are there any trends, are we seeing a lot of claims for podiatry, and maybe we should talk about what kind of shoes people wear. I mean so it's really how proactive are you going to be with the data that you're dishing out.

Tegus Client

Got it. Now, I guess, we can kind of follow up on the share of each of these players. But are there any good associations or research reports where we can get a sense for the size of the TPA market.

Senior Vice President at USI Insurance Services

There's a great one. You have society of TPAs, society of benefit administrators. You also have the, believe it or not, SHRM, the Society for HR Management association. They've got all these TPAs are members of that. And so whatever they're coming up with, it's really cool, comes through SHRM because they want the HR people to buy in before they get to the CFOs and owners to sign off on it. So those are great places to go.

Tegus Client

So we can look specifically there. So outside of its size, definitely want to get to the reason for selection, the TPA switch, then we can point to some specific competitors that align to that. But before we go there, could you perhaps just talk about broader sort of macro trends that are impacting the TPA market?

Like what's making the industry grow for TPAs that are those independent mom-and-pop TPAs kind of better servicing the average employer size of that range, the 100 to 1,000? What are the tailwinds and headwinds with kind of chasing those employers? Are those part of sales TPAs?

Senior Vice President at USI Insurance Services

Yes. The biggest macro was government interference, right? And that's still the biggest driver of this kind of stuff. Yes, the biggest macro is government interference. There is no, right now, trend of why you'd want to start a TPA. I mean you've got to be out of your mind. But typically, it's because you found a niche. It's because there's something that you see as a founder that makes sense and that drives that.

Now 10 years ago, that was this idea of minimum premiums, right, and level premium. And you saw a bunch out of Texas that were doing that. We saw a bunch out of Pennsylvania that got started, they even went public what I think called Marpai. You know about Marpai?

You've got these little itty-bitty ones that are out there that came out of the woodwork and have made an impact, are doing well. They're at the edges, right? They're getting business. They're getting their opportunities. But they're not dominant. It's not like they're going to make a choice between five TPAs.

Typically comes down to, okay, I'm with Blue Cross. I'm not happy, give me an option. Or hey, I've have got this option here with XYZ TPA. Let me talk to you about self-funding and how you can take control of your future and your employees are healthier than everybody else, yadda-yadda, let's go with this, right?

But you also have your TPAs to focus because of the total chaos, that the guys out of North Carolina, South Carolina put everybody through and all the other larger publicly traded administrators like WEX, they bought Discovery.

I hastily started about this, I apologize, about who is buying out who. But you've got these people at the edges in the Section 125, commuter reimbursement, day care reimbursement, et cetera, COBRA administration, like HSAs, HRA, that area is still ripe.

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You can still get in that business and make a difference, because nobody has really done that really well. In fact, we've seen big failures from companies not do it well and drop the ball and have system problems, which opened up the door for new entrants. So then, of course, on the self-insured dental and vision area with dental premiums going through the freaking roof.

And now we're seeing this thing with optometry, that opens it up to self-funded dental and vision on a stand-alone basis. So the ancillary people are doing really well in that area, taking away business from Delta Dental, taking business away from your Guardians and MetLifes and Unums out there.

Tegus Client

And so when you're talking about these niche commuter reimbursement, COBRA, are there TPAs that are specifically focused on these areas that you just referenced?

Senior Vice President at USI Insurance Services

Yes, absolutely.

Tegus Client

And so before we go there on that, one of the areas that we're trying to get sense for this is emergence, similar to kind of what you were describing, around self-funded plans that are catering to either a specific industry or a group of employees that are in a specific industry, if you will, like MEC plan, for example, or where there's Minimum Essential Coverage.

Senior Vice President at USI Insurance Services

Yes, there's a problem with those, right? And that is you've got to be able to hire people and compete for people, and people want to be able to go to their doctors. They want to be able to be with a good plan, not a MEC plan where they're going to just ram if they go to the wrong doctor on the list.

I mean if you're looking at benefits, right, it's benefits, it's not hurting somebody for making a bad decision. You're supposed to be helping people. And so when we see these carriers that are on the edges as far as reimbursement rates that will harm somebody, where do you win in this business is by helping people.

So association plans, helping a group of plumbers, wholesaler supply plumbing, wholesale restaurant association, hotel association, that kind of thing, those associations are always willing to try something new and to create a TPA that they may even own or they have ex-Secretary Treasurer that decided to become the TPA and get it started. That happens all the time.

Tegus Client

Yes. So not a fan of the MEC plan, you're saying. So from a wrong side of reimbursement. Are there any other types of emergence from an industry perspective are you seeing around these plans that are similar to MEC plans or a niche? And who are creating these things? Like what we've heard is the term is program manager as someone who was a former broker, wanted to gather a noncompete, and they started a health plan around one of these niche areas that you just kind of alluded to.

But who is typically starting these things? And do they have to partner with a TPA? Like if they have created the whole network design, created all the nuances, run all the analysis around how they can help an employer save money and they just needed TPA to do the same piece.

Senior Vice President at USI Insurance Services

Yes. You see that in industries that they don't care about the people. I mean seriously, there are farm workers or there are laborers or definitely nonunion, I can tell you that. But what I think it is the same story, though, in the sense that an ex-broker or somebody who saw an opportunity decides that they're going to create a TPA because they have access to a willing group of people that want to do it but you have to grow that.

You just can't be one-trick pony and have one casino, and now all of a sudden, you're casino expert. You

need to grow the number in the casinos that you're doing or you need to grow that group of security guards that you're doing, that type of thing. And so just writing one, you're never going to make a living.

Tegus Client

Got it. I guess what we've seen in certain places as well is that they're actually not a TPA. They are creating all the elements putting all together the cost containment vendors, whether it's the out-of-network piece of it and whether it be a PPO. And they're putting all those components together, and then they're going to a third-party administrator for the technology back in, back office piece of it.

Is that something that you've seen other players in the market do, is serve as the back-end to other sort of program managers of these types that you just were alluding to, to service and be the spine of their products that they're going to market with?

Senior Vice President at USI Insurance Services

It's very hard for a newbie to convince old people like me to change their ways and all of a sudden adopt them without them actually having some success. Do you know what wins in our business? Fear. Fear wins. When I was brought in to consult Zenefits, believe it or not, 20 years after creating Simpata. When I was brought into Zenefits, the reason they brought me in was fear. They were losing business and they didn't know what to do. And they had to make some radical changes, right?

And they listened to me, they did the right thing. But you know why they were successful and what they did that was so smart is they scared the brokers. They were able to go directly to customers, write that business. And that fear created three startups, namely Ease and Broker Passport. So that's what makes changes in our business is these people are making I was one of them. I mean we make a lot of money doing what we do.

In fact, even today, at only 5% of premium, right, we make a fortune. And so it doesn't take very many customers to make you very complacent because you're very happy, you don't have to replace that many customers. So your retention is through the roof, over 90%. That's our industry average. So these are not people that are risk-takers.

I am saying the brokers and consultants that are out there are not risk-takers. And when you get a call from a startup TPA telling you, I have a better mousetrap for a MEC or I have a better mousetrap for COBRA, or whatever, they're not talking to you until they lose a customer to you. That is when they'll talk to you typically.

Tegus Client

Got it. So it sounds like the key reason for a selection is the broker is still a critical sort of link in the chain for the TPAs to access the employer group. There's no real players going direct to the employer group themselves. Is that true or false?

Senior Vice President at USI Insurance Services

That's true.

Tegus Client

Got it. The broker is a link in the chain. You gave two examples so far, reason for selection that a broker would utilize a third-party administrator. One was service, and two was reporting. Are there any other critical areas that brokers want to build these TPA relationships?

Senior Vice President at USI Insurance Services

It's something that's truly innovative, truly different that is a new trend. And a lot of that is also government-generated when the government forced down COBRA. Now I need a COBRA administrator. When people were starting to buy dependent care or people started getting HSAs and having to do this whole concept of consumer plans with a budget. So the trend is your friend in this business.

Tegus Client

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Got it. And then follow up on that trend question, the MEC plan. Like when did they come about? And

Senior Vice President at USI Insurance Services

They came about because there were no other options. Nobody had anything to talk about. So a couple of MEC plans get sold and stir up the pot a little bit, brokers have to react and need to now learn about it and even present it, because employers are talking about it, right?

So they go to their broker. And their broker is either as excited about it or rains criticism down upon it. But brokers are also in competition with other brokers. The relationship is maybe tenuous because there's a new HR person or they hire a new CFO, et cetera. There's a lot of moving parts to putting your relationship at risk. It's a very anecdotal situational business.

Tegus Client

Yes. And now, I guess, given, the macro kind of influencing the broker selection, can you talk about some of the key players that you think about that are servicing this size of the market, the 100 to 1,000? And then separately, I would love to understand who those players are that are kind of emerging around these niche HSA and MEC, COBRA type plan that you were alluding to as the new innovation.

Senior Vice President at USI Insurance Services

Yes. So it's all regional, right? So I mean, when you're looking at the companies that are emerging, that are exciting, where I see them mostly actually coming from now is from the HRIS or ben admin companies. And they're spreading into becoming TPAs in the COBRA administration, HSA administration area. That's where I'm seeing the growth.

I'm not seeing it from like the newest Discovery TPA or the newest BenefitMall TPA. You also see it coming from the MGAs, too. The MGAs are stepping into that business. So it's really based upon, I think, where you're located more than anything else, right? You have your national ones, your national TPAs like TASC, you've got now, like I said, your HRIS, ben admin systems that are getting into it, like Businessolver. So I mean it's really coming from the edges.

Tegus Client

That are servicing this TPA market you're saying?

Senior Vice President at USI Insurance Services

Yes.

Tegus Client

Got it. Are there specific names that you can provide? I heard Businessolver.

Senior Vice President at USI Insurance Services

Yes, tasconline, right? You have BSA, you've got BRMS, Benefit Source. I think even Rippling does it now.

Tegus Client

And are you familiar with like the self-solves of the world or TriZetto, Zelis. And you mentioned Marpai earlier. What do you think about their business prop? What are they doing? What's different?

Senior Vice President at USI Insurance Services

I don't know enough yet.

Tegus Client

Got it. And you've mentioned MGAs were getting stepping into that business. What specifically business were you referring to with that? And are there examples of that

Senior Vice President at USI Insurance Services

I mean that's what I do, is I create them for founders from outside the business. So companies like SafetyWing, withfaye.com, Suretys. I mean, this is what I do. So creating an MGA is essentially you've got someone who's got an idea, and they want to ensure something that makes sense.

And in order to they can't be an insurance company because they don't have any money. And the VC, before they give them enough money to where they can do quota sharing or set up a reinsurer, wants proof-of-concept and wants to see if they have some sales. So it's usually a progression where you start off as an MGA. MGA meaning you're making 30% on the dollar commissions of premium.

And you may or may not, but most should and most do now work with outside brokers. So out of that 30% that you're getting, you're going to be paying about half of that to other independent agents and brokers so that they'll bring you business. In that way, you've got a mix of distribution, you're not dependent just on paying Facebook and Google money for every click that you're getting. You're also getting brokers that are bringing new business, so you want to make sure you're doing that.

And so you've got, if you will, hybrid distribution. And as you grow your business as an MGA, you then want to get into the quota sharing with reinsurance where you find a reinsurer like Sirius or Greenlight and say, look, here's our claims experience, here's how we're doing. We want to take 20% of this. We've raised another \$100 million.

And we're going to set up a captive in the Caicos. But if claims are great, we're going to share it 80-20. If claims are bad, we're going to share 80-20. And next year, we'll renegotiate maybe to 60-40. And then after about five years, thank you for helping us. We're going to be our own insurance company, and have a nice day.

Tegus Client

Yes. But they're not a TPA. They're not playing like TPA.

Senior Vice President at USI Insurance Services

No, they do. Yes, you've got to, because if you allow somebody else to pay your claims on your behalf, you're going to end up with a bunch of one- and two-star reviews. So my clients, for example, withfaye, which launched in April, and now within six months the #1 travel insurance company in the country, okay, in less than six months.

It has nothing but five-star reviews, because we pay our own claims. We are a TPA. And what's different with us and those is we're 100% digital, we're 100% electronic. So when we get a travel claim for lost bags, you're taking a picture of the form that you filled out, and we're putting \$500 in your digital wallet instantly, okay?

So yes, we are a TPA. And every one of the MGAs that's actually has to be three things. It has to be an agency, it has to be an MGA or surplus volumes provider, and it has to be a TPA. And so you have to get licensed in 37 states as a TPA, all 50 states as an MGA and as an agency. It is a grind.

Tegus Client

And that's medical TPA license?

Senior Vice President at USI Insurance Services

That is only kind of TPA. If you're paying medical claims, which you do, by the way, for people who are traveling and get sick or need repatriation.

Tegus Client

Are you selling directly to the employer? I

Senior Vice President at USI Insurance Services

No, we're selling directly to consumers. Withfaye is selling directly to consumers.

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Tegus Client

Got it. Okay. But then are the consumers under self-insured employer?

Senior Vice President at USI Insurance Services

No, we're fully insured with Crum & Forster.

Tegus Client

So this is a different option than the self-insured route, right?

Senior Vice President at USI Insurance Services

Yes. It's a different option. Correct.

Tegus Client

So you have MGAs creating a way for an employer to stop thinking, connects direct to consumers, and they're not going to employ your business?

Senior Vice President at USI Insurance Services

Actually to create a business travel plan, and that will change things when we do that in the coming year.

Tegus Client

But you'll have to then go to the brokers?

Senior Vice President at USI Insurance Services

No. We will do that as part of what we're doing, and we'll do it in a very selective way. Because we will want to create in the marketplace, the other brokers coming to us and demanding that they be able to sell it as well. So we'll start off with a couple of very selective brokers that will go out and get customers that these other guys have.

And they will then say, hey, why can't we sell this, too. And that's how we're going to do it. But we'll also be going direct, because we're creating a new market, right? This market doesn't exist. It doesn't exist right now. So we're creating it and the product doesn't even exist that we've created.

Tegus Client

Is there a huge market of MGAs helping employers self-contain.

Senior Vice President at USI Insurance Services

You've got your BenefitMalls, you've got your Dickinsons, you've got about a dozen national MGAs, marketing health insurance plans and ancillary products through the brokerage network. So that is a great place to be, because you don't have to worry about customer by customer, you worry about broker relationships. You have hundreds and thousands of customers.

Tegus Client

And is this for a specific type of insurance? Or is it all comprehensive standards?

Senior Vice President at USI Insurance Services

These folks even are selling Blue Cross to these brokers and Aetna, Cigna, UnitedHealthcare, Kaiser even.

Tegus Client

Outside the MGA, are there any other players attacking this SMB market outside of standard mom-and-pop TPAs and the other segmentation that we described above.

Senior Vice President at USI Insurance Services

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Not that I can think of, no.

Tegus Client

Okay. Got it. But then you have the level funding as an option, too, where employer groups can save that way as well?

Senior Vice President at USI Insurance Services

They can. There's nothing wrong with and it's a good conversation to have. I think they're having better success with the smaller customers, between 10 and 100, with level funding. I think you'll see that your larger customers want to talk more about specific and aggregate stop loss, retention points. I think whether it's 12-1215 contract. I mean running in, running out, you have a different conversation with larger customers.

Tegus Client

Got it. So level funding is more for 10 to 100 employer group set.

Senior Vice President at USI Insurance Services

Now it is. But five years ago, no.

Tegus Client

Okay. Can we talk a little bit about the technology platforms? And then I also wanted to pick your brain on reference-based pricing and just the value of network, the fact that having access like the TPA market that they have access to, Aetna, United, Blue Cross Blue Shield, Cigna, what exactly does that even mean? Like who cares?

And if they're offering this access to and an aggregation concept to other TPAs who may would not be able to access the market directly and they're kind of serving as an aggregator, just trying to get a sense for, is that a value prop or not for a specific TPA.

Senior Vice President at USI Insurance Services

So the TPA telling somebody that you have access to the Blue Cross network for discounting and for using their doctors and hospitals, et cetera, is very bad. Because it's a very big network. So I think saying you have access to UnitedHealthcare or Aetna, et cetera, it still shows that, hey, you're a player and you've got the credibility in the marketplace to be able to partner with things like that.

So it is an advantage to be able to say, you can provide those kinds of things. And not only that, but those big networks give you repricing, meaning the claim comes to you a lot easier. They're repriced usually. They go through the network. They're already reviewed. The pricing is already done. And they're giving you the bill to pay net, right? So your job is easier as a broker as well. So there's a lot to be said with that kind of ability.

Tegus Client

And what about if a TPA can say, I have multiple RBP vendors, multiple network access, brokers, this is why I should win your business versus another, is that a selling point to be able to offer multiple RBP vendors or RBP even at all?

Senior Vice President at USI Insurance Services

I guess whatever you can say, you have somebody sign on the dotted line.

Tegus Client

Okay. I'm just trying to give a sense for like what really makes one TPA win with a broker versus the other. But is it purely just service and reporting?

Senior Vice President at USI Insurance Services

It's everything above, all the things you said. I don't know if it's listed, but it is in the front end, whatever is going to get that employer to perk up, then they'll listen to what you have to say.

Tegus Client

And so then back to my other question that would lead into this one, technology, like same platform. When you were managing your own TPA, would you use something off-the-shelf or were you using something custom? Trying to kind of get a sense for, whatever TPA says, hey, we have this technology where we can create.

We can handle any type of plan design, we can process any type of claims, which therefore means our implementation times are faster and we can get you set up quicker than so and so TPA, is that a selling point to have differentiated technology claims platform? What were you using when you owned the TPA?

Senior Vice President at USI Insurance Services

Those are overall after the discussion, okay? Those are all, hey, I'm interested. Now, why should I be interested? Give me more. Give me more data for me to learn about, right? And remember, the customer is only going to say they're interested if you've made the broker's spreadsheet. And the more you can offer your customer, the more compelling you can be, the better off you are.

Tegus Client

So when you owned your TPA, what were you using? Where you are using something off-the-shelf.

Senior Vice President at USI Insurance Services

We created our own software. Always did. Always had our own people, finding software people wasn't hard, right? I had a lot of friends, and all my customers were the VCs. So if somebody has got a job and going from one place we were really fortunate by just circumstance.

Tegus Client

But for a standard kind of TPA, again, I assume you might have been competing.

Senior Vice President at USI Insurance Services

They are buying something and paying subscription fees. And was it the most current stuff? Was it any good? Was it easy to customize, et cetera. They are always, I think, working behind us because we were really fortunate to be able to have such a good team.

But I think when you're looking at the software, the software behind the scenes that you use the customer does not care about. They care that the client gets paid on time. Was it paid accurate? Am I getting good reporting? Am I getting good information? Are you giving me analytics? Are you telling me the bad news and giving me enough information so I can make a decision? It's very consultative.

Tegus Client

And if you had to estimate how much like what a TPA has to pay to license the technology that was not their own?

Senior Vice President at USI Insurance Services

It's a lot of money, just put it that way. It's not cheap. It is a barrier to entry.

Tegus Client

That is the only barrier, it sounds like, to entry in this market?

Senior Vice President at USI Insurance Services

Plus, you need to find people who know how to use it, you train them. It takes a really good team of initial

people that have experience to get this going. You just can't bring somebody over who used to be using Intuit's accounting software, if you're looking to run this benefits package.

Tegus Client

All right. And can you give us a sense of the landscape of the off-the-shelf systems like this?

Senior Vice President at USI Insurance Services

Not this second off the top of my head. I used to know all that, but I don't know who the current good ones are or not. I don't think there's very many left, to be honest with you. I think what might be left or what might exist might be like just a few choices that are any good. And I don't know how much has been invested in those choices over the last few years.

Tegus Client

Got it. And the TPA kind of says we're super flexible from a technology perspective, and that's probably win business, what does that mean, if you were to hear that?

Senior Vice President at USI Insurance Services

I think that's wonderful, and I'm really glad for them.

Tegus Client

I mean if you were to explain that to someone not in the industry, like an ambassador to China.

Senior Vice President at USI Insurance Services

I don't think people know what that means. I mean tell me what that means tangibly? Does that mean that you're integrated with the hospitals and doctors and that the claims are processed in real time? Does that mean that your optical reader can see the dentist x-rays and confirm that the cavity in tooth 13 is the one that's being done, and we're going to approve it? I mean there's a lot of moving parts to that question.

Tegus Client

But a typical TPA like being able to have fast implementation times, 45 days, versus back to the industry average, we can handle all plan designs, we're integrated with all the vendors, we have all the PBM relationships.

Senior Vice President at USI Insurance Services

If they told me it took them 45 days to get up and running, I'd be looking for a new TPA.

Tegus Client

From the sale to being implemented, you think that's horrible?

Senior Vice President at USI Insurance Services

It's horrible. If I told you today that I want to go with you November first, you better be able to go November first. I'm serious. I'm not joking. Even though it is November first, I gave you the business today, I expect that you take my business today and have me up and running and have me up and running quickly for any of the stuff that I mentioned, COBRA, Flex, all that stuff.

We took people two days afterwards sometimes and have them up and running. But in talking medical, then maybe December first. If I owned the TPA, December first wouldn't be a problem. I can easily do December first today, a month in advance. I would have loved somebody to give me a month. Are you kidding me? I mean seriously, we took people one, two days before the effective date for medical.

Tegus Client

That's helpful. Just we're not obviously an operator with TPA.

Senior Vice President at USI Insurance Services

I mean, look, I'm not an operator anymore either. So maybe that's one of the reasons why I'm not an operator. My uncle is 86 years old, okay? He still runs today the most profitable and the largest TPA in California, all right? We've always been the most profitable TPA. Both he and me competed with a better margin, right?

He had union customers. I had non-union customers. I had WIRED magazine. He had the Teamster. This is a wonderful business, okay? It really is. They can make a lot of money and do really, really well, but they have to have wonderful software, wonderful people in order to make that happen.

Tegus Client

Can we talk a little bit about margins? We're starting to get a sense for both pricing and just margins generally for a TPA. Our understanding is that the benchmark for this industry is kind of mid-20s on PEPM basis and then below 20% EBITDA margins. Can you give a sense for how we can be benchmarking the in the space? And trying to get a sense of why some might be higher margin than the ranges that I just indicated?

Senior Vice President at USI Insurance Services

Yes, I would definitely talk to the Society of Professional Benefit Administrators. They have some data on that. When I was buying TPAs, and I bought about four of them in the late '80s and early '90s, most people that we were talking to actually were losing money. And the people we acquired were just barely making a lifestyle business.

And that's really why we bought them, because they were fire sales, right? And we were able to integrate and successfully make money from doing that, right, arbitrage. But I do believe that you're right that the 20% makes sense in today's world and the mid-20s should be where it should be if you're a better-than-average operator. And if you're an excellent operator, it should obviously be 30-plus. So I think those numbers make sense to me.

Tegus Client

Got it. And what about on a PEPM basis?

Senior Vice President at USI Insurance Services

I would not use a PEPM, because you've got people who charge different for different services. You've got dental PEPM, vision PEPM, PCS PEPM and health insurance PEPM. Does it include reporting every month or every quarter? I mean it's all over the map.

Tegus Client

Awesome. Thank you so much for chatting. Really appreciate it. Have a good one.

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