Case Study

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Project: B2B Churn Analysis.

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SUMMARY

S Situation

Over a five-year period, Blue Shield of California's large group division (employers with 51-2,000 employees) experienced steady overall market share and met new sales targets. However, a concerning trend emerged: a decline in the overall renewal rate within this market segment leading to lower than forecasted growth. Our team was tasked with identifying the root cause of this issue and proposing effective solutions.

B Background

The California large group market is characterized by stability and competition primarily between two major health insurance providers, including Blue Shield. Health insurance competition in this market revolves around two key factors: price (premiums paid by employers) and network (list of in-network providers offering lower out-of-pocket costs). Due to the size and scale of the California market, only a few insurers, including Blue Shield, can competitively price coverage across large geographic areas in California.

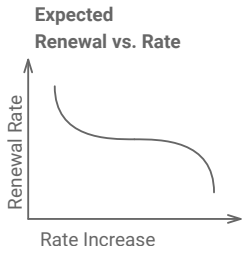
A Analysis

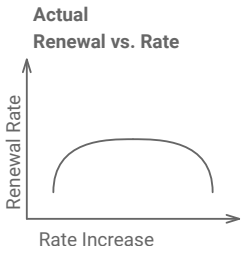
To understand the declining renewal rates, we initially examined the relationship between renewal rates and renewal prices. Contrary to the expected S-shaped curve (where lower renewal prices correlate with higher retention rates), we observed an inverted U pattern. This unexpected finding indicated that a smaller proportion of employers offered the best renewal costs were renewing. The remainder of the renewal curve aligned with expectations.

To pinpoint the cause of this unexpected churn, we conducted a two-pronged investigation. First, we compared internal metrics (underlying cost, product offerings, networks, customer experience, employee satisfaction, and claim metrics) to those of our competitors. Simultaneously, our account management teams engaged with the previous year's employers who were offered the lowest prices but chose not to renew. While the internal metrics analysis revealed no significant differences or patterns, the customer discussions provided valuable insights.

We discovered that competitors were consistently underbidding Blue Shield, specifically targeting our lowest-cost customers. Since underlying costs were comparable across insurers, we needed to understand how competitors were able to strategically target these specific employers.

Further investigation into the rate-setting process shed light on the issue. Our annual rate-setting process involved actuarial forecasting and sales underwriting to develop price bands. Each renewal was assigned to a band, and renewal letters quoted a rate slightly higher than the band's midpoint. Each band also had a "discount budget" for price negotiations. However, this process inadvertently signaled to competitors which employers had the lowest costs, allowing them to cherry-pick these renewals by offering more competitive rates.





RESULTS

To address this issue, we needed to obscure the rate increases from competitors while maintaining the appropriate employer-rate alignment. In collaboration with account and underwriting teams, we designed an experiment to modify the renewal process.

The primary change involved releasing only two major rates: the "average rate" and the "high-risk tail rate" for employers requiring significant price increases. Account teams were given a budget per employer band behind the average rate increase, enabling them to adjust rates during in-person renewal discussions. This approach effectively concealed individual employer rate increases until later in the process, preventing competitors from easily identifying and targeting our lowest-cost customers.

The new process proved successful across the entire book of business, significantly improving churn rates among our lowest-cost employers. By mitigating competitor cherry-picking, Blue Shield was able to return to its regularly forecasted membership growth and even accelerate growth when favorable pricing conditions allowed. Furthermore, this revised process established a framework for future experimentation, enabling ongoing optimization of the renewal process through testing different price bands and timings.