

## The Pain, the Prize, and the Path: Current Pain Points & the Path to Top Performance in Health Insurance Distribution Markets

**The Pain:** *“These are systemic problems in the entire distribution chain and present a huge opportunity to improve performance all the way through the chain. It is just ripe for disruption.” – C-Level Leader, FMO*

*“With any of these processes, the current operation impacts your cost structure, which impacts your pricing, which then drives your market competitiveness and topline. Getting this right is incredibly important, and investing to reduce your variable costs can be very high ROI, propagating through several elements of the business model.” – Market President, National Carrier*

**The Prize:** *“Fixing this is equivalent to totally transforming the front door of my business. I would reinforce and emphasize that the size of the opportunity here is massive. No one in our space is doing this effectively right now. It would be transformative to our ability to grow and optimize the business. And the value-added would go all the way downstream to the writing agent because if you could get your hands on automated data feeds and have a master dashboard with the ability to click down all the way to the writing agent, it would be massively beneficial.” – C-Level Leader, FMO*

*“It’s difficult to overstate how beneficial and critical it is to get your operations into as automated a state as possible. It’s amazing how much better you perform when you’re as automated as possible.” – Market President, National Carrier*

**Executive Summary:** The health insurance<sup>1</sup> distribution market in the US is currently very inefficient, with fragmented data and financial flows between all segments in the vertical chain.

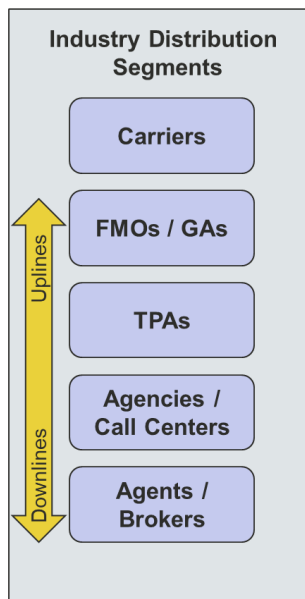
The root causes are non-standardized data and file formats, poor integration, and coordination problems. Addressing these issues could achieve significant performance improvements: reduced cost structures, automated, error-free data flows, faster processing, lower product prices, and higher customer satisfaction. A state-of-the-art distribution management system (DMS) is the path to achieving this superior future state, through de facto standardization, automated & integrated data feeds, and analytic performance dashboards to manage businesses strategically. First-mover adopters of a DMS will achieve immediate strategic advantages. Market-wide adoption of a DMS will result in dramatically superior industry performance.

**Current Distribution Structure:** The individual health insurance distribution structure is comprised of a vertical chain of organizations spanning from carriers at the apex upstream to individual customers at the termination point downstream. In between are field marketing organizations (FMOs), downline agencies & brokerages, call-center demand aggregators, and ancillary service providers such as third-party administrators (TPAs) and insurance consultancies. Each of the actors in the chain sends and receives voluminous data and financial flows to serve customers, collect premiums, make claims payments, market new offerings, and improve performance. The complexity of these flows and their current fragmented nature (proprietary, incompatible, incomplete) create pervasive market inefficiencies that market participants refer to as “Top Pain Points”. These are significant sources of friction in the system that, if addressed, could result in dramatic performance improvements.

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<sup>1</sup> Health insurance products in this research include individual policies for Medicare Advantage (MedA), Medicare Supplement (MedSup), dental, vision, critical illness, long-term care. Group major medical insurance is excluded.

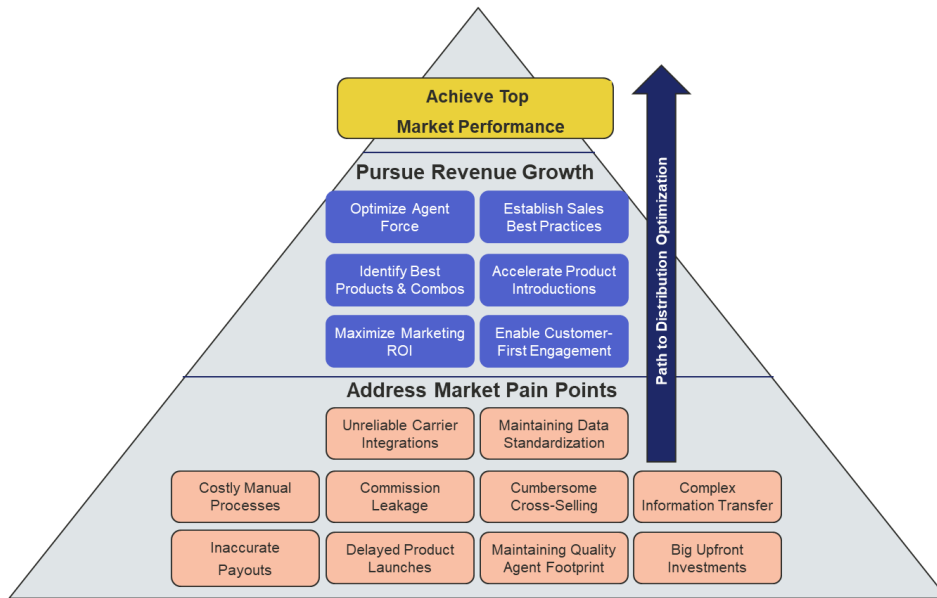
## Health Insurance Distribution Structure



**Top Pain Points:** In this market research<sup>2</sup> we explored the nature, severity, and potential solutions to each pain point in 60-minute in-depth interviews with top executives in operating roles at national carriers, regional carriers, and FMOs. Executives also rated the top 10 pain points on a 1-5 scale (1 = low pain, 5 = severe pain) indicating the relative severity of the problem and then identified the top 3 pain points that would result in the greatest improvement if addressed.

### Addressing Top Pain Points

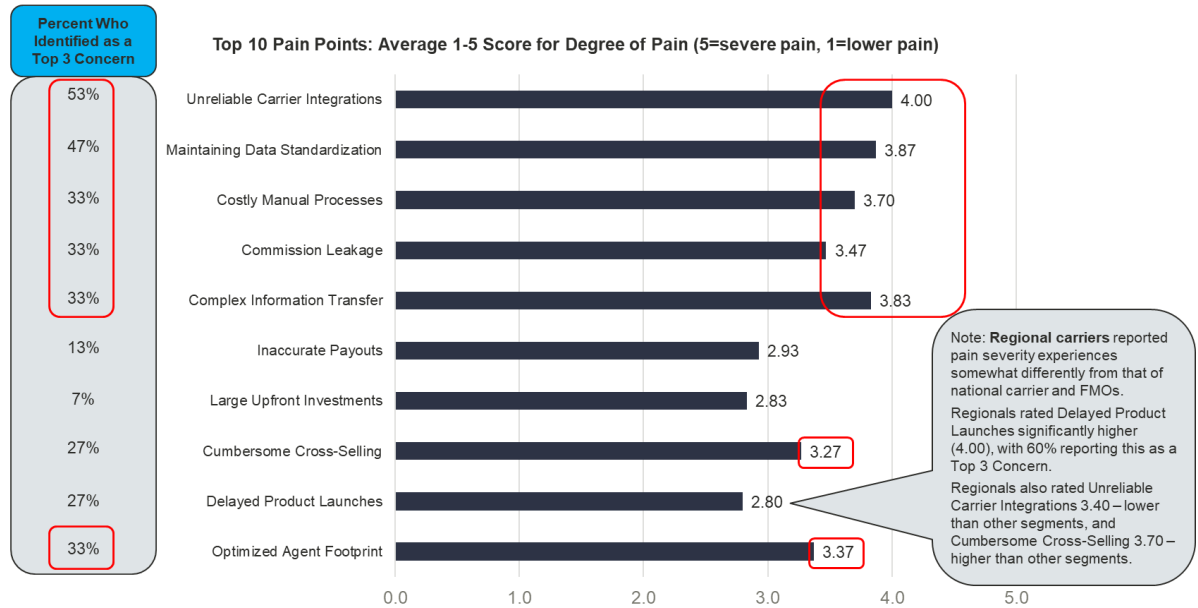
Delivers performance improvement through greater cost efficiency, enhanced revenue growth, and first-mover advantage, resulting in market leadership



<sup>2</sup> The insights and conclusions of this market research study are based on 15 in-depth interviews with top executives of leading national carriers, regional carriers, and FMOs in the health insurance distribution market. These leaders were drawn from the most relevant functional roles in their organizations in distribution, revenue generation, operations, strategy, innovation, and line-of-business leadership of regional and product markets.

## Top Pain Points: Severity Scoring & Top Concerns

Respondents identified many pain points as very significant obstacles to realizing industry efficiency and effective management for growth.



**1) Unreliable Carrier Integrations (4.00 average pain severity; 53% cite as top 3 concern<sup>3</sup>):** At the upstream apex point are both national and regional carriers who create, underwrite, and administer health insurance products. They each have unique and proprietary configurations for required data elements, data definitions, and file formats. It is this fragmented component of the distribution chain that is a key root cause of market pain, creating voluminous and expanding inefficiencies downstream in distribution service. Carrier integrations were scored highest on average for the severity of inefficiency and market pain they create, and were identified as a top 3 concern by more than 50% of participants. The high market concentration and market power among carriers make it very difficult to achieve consensus data standards among carriers. However, if de facto standardization could be achieved through intermediaries, without a consensus requirement, the realized benefit

would be vast as the efficiencies it creates would cascade all the way downstream.

*“Too much of it currently is in spreadsheet form, distributed throughout the organizations, not accurate, not consistent, not aggregated, so there is nothing like a master dashboard view. Result is a great loss of capacity to understand the data on a continuous basis and lost opportunity in being able to manage the business intelligently.” – FMO*

*“If you can standardize carrier feeds and real-time automation, you could achieve 10 percentage point cost structure improvement and 5 percentage point profit gain.” – FMO*

*“Could be at least a 5-10 percentage point reduction in administrative cost structure through elimination of unreliable carrier integrations and lack of data standardization. Also, it slows productivity significantly through distraction, chasing discrepancies. It also erodes trust levels in the market, making it more difficult to do business.” – National Carrier*

*“I always tell my son if he really wants to become incredibly successful, he should put together software that will aggregate carrier information into a standard*

<sup>3</sup> Regional carriers reported lower severity for this category, with a score of 3.40.

*language that can then be fed into any system.” – National Carrier*

### **Lack of Standards & Automation**

The lack of standards and automation continues down the vertical chain beyond the upstream carriers, to include FMOs, downline agencies, demand aggregators, and service providers. This creates three top pain points within the category of Standards & Automation:

**2) Maintaining Data Standardization (3.87 pain severity; 47% cite as top 3 concern)**

**3) Complex Information Transfer (3.83 pain severity; 33% cite as top 3 concern)**

**4) Costly Manual Processes (3.70 pain severity; 33% cite as top 3 concern)**

Achieving and maintaining data standardization becomes more difficult downstream when the upstream carriers create a fragmented state at the outset. Information transfer complexity then magnifies the inefficiency by spawning thousands of disparate data fields, file formats, and transmission protocols that multiply the complexity as it flows downstream. And because there are inevitable disagreements about data sources, definitions, file structures, and incompatible formats, costly manual processes are required to reconcile, standardize, and format data transmissions that could otherwise be automated. The manual intervention invariably creates additional errors in the system as a result of human intervention in a non-standard process. These additional errors need to work through the reconciliation process creating iterative and multiplicative inefficiency. The efficient solution to this current state would be fully automated and standardized flows that would be far less costly, faster, and error-free.

*“Whenever you have manual processes, you have errors, and it slows down other things. It propagates*

*throughout the entire system creating higher costs and delays. If there’s a four-letter word in the distribution system, it’s manual.” - National Carrier*

*“There is huge wasted effort that should not be required if systems were more standardized and automated. It also creates longer elapsed time to process, so the bleeding continues. As time goes on, you’re losing more and more due to distracted operations and benefits farther in the future.” – FMO*

*“Automation does remove the need for personnel. And personnel have a lot of overhead in terms of benefits, office space, management overhead, etc. So not only is it more efficient in terms of variable costs and speed to automate, you have also removed significant fixed overhead cost associated with labor-intensive processes.” – National Carrier*

*“If you could create standardized data formats and transmissions, you could cut these cost structure components in half” – Regional Carrier*

*“With any of these processes, the current operations impact your cost structure, which impacts your pricing, which then drives your market competitiveness and topline. Getting this right is incredibly important, and investing to reduce your variable costs can be very beneficial, with high ROI, propagating through several elements of the business model.” – National Carrier*

*“Error-prone manual processes and lack of standardization create huge challenges in managing the business. You get a good piece of news, then you get an update from accounting, and everything you thought you understood about the business flips. Executive management pays a huge amount of attention to these data integrity and analytical accuracy issues in managing the business and making critical strategic decisions and there are many lookback adjustments. It reduces your confidence in managing the business.” – FMO*

The value of addressing these pain points of non-standard formats, complex interactions, and manual processes is immense and permeates every aspect of the business, enabling high-performance outcomes that simply were not attainable or even visible previously.

*“If these problems were fixed, we would run the business completely differently. We would be more strategic. We would drill down on the performance gaps, understand where do we need to target to raise sales? Is it the product, agency, agent, incentives, marketing spend, re-pricing, carrier-specific issues, or some other root cause? We could then take action on that insight, including incentives, leads allocation, pricing, marketing spend, product development. We would also learn over time and develop a far deeper understanding of the drivers of our business and how we can best manage them for growth and profitability. We would feed the insight back upstream to inform product development and hold everyone in the chain to a much higher level of accountability. Our product development head would have our current experience with the product set as he begins the product development process (e.g., persistency, mortality). That would be a game-changer for product development for all attributes, including pricing.” – FMO*

**5 & 6) Commission Leakage (3.47 pain severity; 33% cited as top 3 concern) and Inaccurate Payouts (2.93 pain severity; 13% cited as top 3 concern):** There are two byproducts of non-standardized data, complex flows, and manual processes that are particularly costly to the insurance market: commission leakage and inaccurate payouts. These result from non-standard data inputs, complex calculation engines, and pervasive errors, requiring manual reconciliation and adjudication. Agents/brokers and FMOs are deeply sensitive about these inaccuracies because it is the lifeblood of frontline compensation and incentives. In addition to the lost energy and inflated cost structure required to achieve accurate payouts, agents/brokers and the entire insurance distribution chain lose productivity through high opportunity costs as frontline sales/service professionals get distracted by tracking and reconciliation. The conflict also erodes trust among business partners, raising monitoring and compliance costs. Agents/brokers who experience higher errors in commission payouts will have blunted incentives, hesitating to place and sell products that would otherwise be beneficial to

consumers. Finally, the financial and reputation cost of commission errors that originate far upstream, often with carriers, will be borne by intermediate FMOs as agents/brokers attribute errors to business partners most adjacent to them in the distribution chain.

*“If you fix this it will allow you to improve your market reputation and become best-in-class among both brokers/agents and the consumer community. Disputation, which is expensive, can result in concessions in order to limit the adjudication expense, which raises your cost structure and lowers your market reputation. It also has an impact on your reserving and product pricing.” – National Carrier*

*“The value of fixing this is in the 10-12% range of commissions/payouts base that you’re losing and should be recoverable through systems improvement.” – FMO*

*“Underpayment creates loss of goodwill w/sales staff and can influence agents/brokers sales incentives and carriers’ market reputations.” – Regional Carrier*

*“Erosion of goodwill is a huge cost. Brokers/agents become agitated, de-motivated when commissions are underpaid, erroneous. Brokers gravitate to carriers who are easiest to work with and most accurate on commission payouts. Accurate payouts are the #2 top factor driving brokers’ carrier-selection motivation (#1 is ease of doing business).” – Regional Carrier*

**7) Large Upfront Investments to Fix Distribution Problems (2.83 pain severity; 7% cited as top 3 concern):** Large fixed investment requirements to fix pervasive distribution problems, usually in the form of IT and systems expense, can be an inhibitor to streamlined, automated processes. This is particularly true if the organization has clear capital constraints and if there is a mismatch in magnitudes between upfront investments and the near-term realized gain from improvements. Some have chosen to build bespoke inhouse solutions to selected inefficiencies. However, the ongoing maintenance of ever-evolving system and data requirements requires not only large upfront investments, but sizeable ongoing investments to maintain currency with evolving



market standards. These investments can be undertaken more efficiently by an independent third party who can spread the systems investments across a much broader client base, realizing efficiencies from economies of scale, and pricing service on a time and seat basis thereby variabilizing the expense for clients.

*“Any change that you’re making is incredibly expensive. There is no such thing as a 7-figure change to one of these platforms. It is usually an 8-figure outlay to make platform changes and organizations think carefully before making the commitment.” – National Carrier*

### Lost Growth Opportunities

Inefficient operations also reduce growth opportunities in the form of three top pain points:

**8) Cumbersome Cross-Selling (3.27 pain severity; 27% cite as top 3 concern<sup>4</sup>):** Current cross-selling operations involve multiple incompatible and repetitive product applications and use of carrier sales app portals to cross-sell products that comprise natural bundles. More efficient operations would enable a more integrated, single-intake application design, while remaining within regulatory requirements. These could be applied first to naturally bundled product combinations with minimized sales friction for cross-selling.

*“Even within the same carrier across product groups you can have multiple systems, multiple business units, siloed approaches. To do it right you have to get down to the specific product combinations you’re focusing on, and you need to have clear processes, bi-directional data flows, agent training, focused data gathering & processing, incentive design, and reporting.” – Regional Carrier*

<sup>4</sup> Regional carriers reported a higher severity score for this category: 3.70.

*“The future focus will be on selling a bundled set of products to consumers that meets their many needs, across carriers. So this will be a future business growth priority and an area of focus.” – FMO*

**9) Delayed Product Launches (2.80 pain severity; 27% cite as top 3 concern<sup>5</sup>):** Product launch timelines<sup>6</sup> are currently elongated due to inefficient, delayed data transfers throughout the distribution chain. This results in product launch timing significantly delayed from the timing of market need. Product design/launch timelines can be compressed through efficiencies to minimize the phases involving data ingest and analytics, and product design prior to regulatory review and product launch. The result is a product and features set more responsive to market needs with a longer in-market sales period.

*“Product launch timelines include many phases – definition of product group, gathering market experience data, assessing customer preferences, estimating market demand, evaluating competitive offerings (current + planned), then product design / development, pricing, regulatory approval, and finally product launch. Much of it is necessarily sequential but there are huge inefficiencies and avoidable delays – reconciliation of non-standard data, response lags, chasing disparate data sources. If these could be fixed, you would have a much more responsive offering set, tuned to current market need, and benefit from first-mover advantages and longer in-market product cycles.” – Regional Carrier*

**10) Developing Most Productive Agent Force (3.37 pain severity; 33% cite as top 3 concern):** Currently there are imperfect and incomplete data and analytics for assessing agent quality and productivity, while controlling for all other exogenous and strategic factors. This results in

<sup>5</sup> Regional carriers reported a higher severity score for this category (4.00) and 60% reported this as a top 3 concern.

<sup>6</sup> Including collection of market-experience data, customer preference data, demand estimation, product design / development, regulatory approval, market launch.

low signal-to-noise ratios in assessing broker productivity, effectiveness, and attribution, making it difficult to identify, recruit, and retain the best brokers. Agents are also distracted by monitoring and disputing commission payouts that are often erroneous from poor data, calculation, and leakage. In a reformed industry distribution environment, data-rich, real-time assessment of broker productivity would be possible with full attribution for environmental factors and strategic inputs, including marketing spend, product pricing, sales best practices, seasonality, and geography. The ability to pinpoint the best agents and best sales practices will power the improved recruitment, development, and retention of a top-performing agent force. The direct benefits from improving agents' productivity and indirect benefits from reputation effects among agents who want to work with high-performing business partners create huge sales uplift from the more effective, more motivated agent force. Best practices that are specific to geography, product type, and customer profiles can also be identified, developed, and matched to agents best able to produce in specific environments.

*"Currently there is not a good system to identify & recruit the best brokers. As an industry we haven't found a good system yet to accomplish this. Cracking this nut would be invaluable to business performance improvement."  
– Regional Carrier*

*"If a comprehensive data aggregator existed tracking broker productivity accurately and comprehensively, it would be invaluable to carriers, FMOs, agents, and brokers." – Regional Carrier*

*"Can be very significant benefits to fixing this if you can aggregate all of the data, standardize it, and develop the inference engine to the point where you're picking up a high signal-to-noise ratio from the data to pinpoint agent issues, problems, and opportunities." – National Carrier*

*"Where are your most productive agents? How can you target them as a marketer, undergird them with incentives and best leads? If you can start to drive production through your best agents, send the best leads to them, feed them more qualified leads using data science, with insight on best approach to client acquisition, that would be massive. And then it's just a continuous repeating cycle. Our topline would increase by double digits if we were able to deploy this analytic strategy using business intelligence tools." – FMO*

*"The advantages accruing to the first mover in this direction are huge as the best agents gravitate to the highest performing FMOs and best business partners upstream in the distribution chain." – FMO*

*"The variance in agent productivity across the agent force is tremendous. The best agents have much higher closing rates, often less time to closing, and an ability to cross-sell. Having a highly productive optimized agent force is critical to business success. Having the best agents changes your unit economics from very unprofitable to very, very profitable, easily when moving from the bottom to the top of the agent productivity distribution. An optimized, high-quality agent force is central to your unit-value economics (e.g., LTV, CAC, profitability, policy persistency)." – FMO*

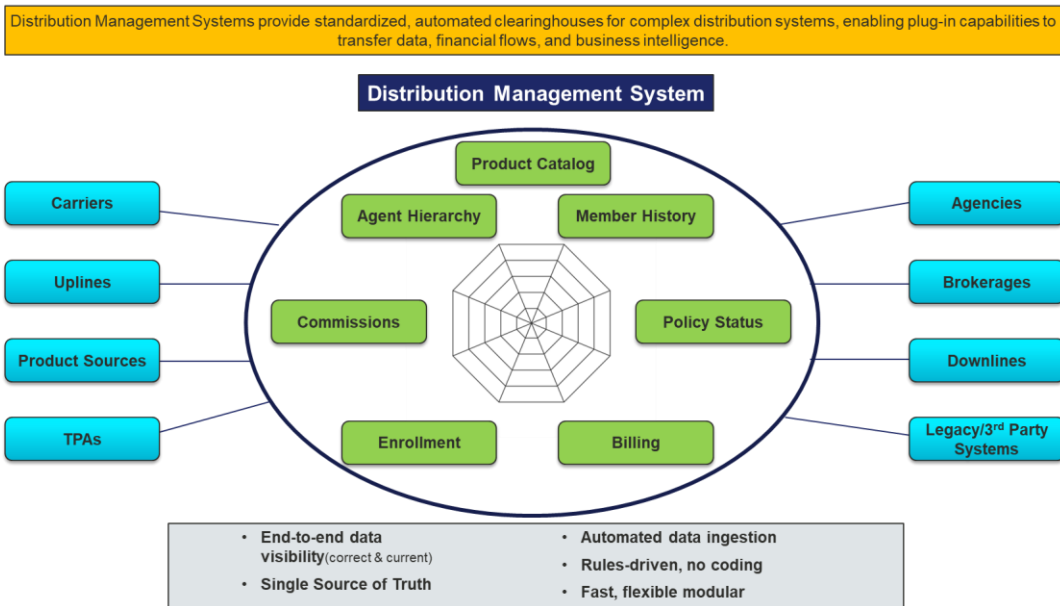
*"The benefits from a top-performing agent workforce are immense: Higher conversion rates, higher policy persistence, more effective marketing spend, ability to have lower expense from agent churn (recruiting, training, certification, licensing). When we did our financial planning, this **was** everything in determining financial performance (hundreds of millions of net profit, and billions in equity valuation)." – FMO*



**The Path to Improvement**

**Distribution Management Systems:** All of these performance improvement benefits can be accomplished by industry-wide adoption of Distribution Management Systems (DMS). DMS systems provide standardized, automated, central clearinghouses for complex distribution systems, enabling plug-in capabilities to transfer data and financial flows, and powering business intelligence overlays. They enable data format standardization, translation engines to convert proprietary formats, automated and integrated data feeds between organizations, and analytic performance dashboards to equip top executives with tools to manage their businesses strategically on a continuous basis. DMS systems have been developed and deployed in other complex distribution hierarchies, providing significant gains in efficiency, speed, error elimination, and cost reduction. They have also enabled organizations and management teams to turn their energy to managing their businesses strategically for growth, innovation, profitability, and customer satisfaction. The DMS adoption process also does not need to be done comprehensively nor all at once: it can be modularized and sequential to accommodate existing legacy systems, finite budgets, and organizational capacity. DMS systems can be the sole platform for an organization to provide comprehensive capabilities and standardization across all functions, can provide connectivity to established legacy components in areas like policy management, and can provide critical component capabilities in selected functions like enrollment, in response to the specific needs and implementation timelines of organizations.

**Overview of a Distribution Management System (DMS)**



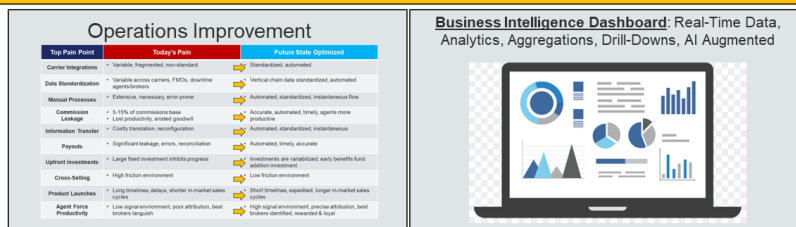
## Today's Pain vs. Future State Comparison: Operational Improvements

The Future State Distribution Model can be optimized along all operational dimensions.

Top Pain Point	Today's Pain	Future State Optimized
Carrier Integrations	• Variable, fragmented, non-standard	• Standardized, automated
Data Standardization	• Variable across carriers, FMOs, downline agents/brokers	• Vertical chain data standardized, automated
Manual Processes	• Extensive, necessary, error-prone	• Automated, standardized, instantaneous flow
Commission Leakage	• 5-15% of commissions base • Lost productivity, eroded goodwill	• Accurate, automated, timely, agents more productive
Information Transfer	• Costly translation, reconfiguration	• Automated, standardized, instantaneous
Payouts	• Significant leakage, errors, reconciliation	• Automated, timely, accurate
Upfront Investments	• Large fixed investment inhibits progress	• Investments are variabilized, early benefits fund addition investment
Cross-Selling	• High friction environment	• Low friction environment
Product Launches	• Long timelines, delays, shorter in-market sales cycles	• Short timelines, expedited, longer in-market sales cycles
Agent Force Productivity	• Low signal environment, poor attribution, best brokers languish	• High signal environment, precise attribution, best brokers identified, rewarded & loyal

## Future State Comparison: Strategic Management of the Business

Operations improvement is just the beginning. It enables far more valuable gains from dramatic improvement in real-time optimized management of the business and long-term strategic insight.

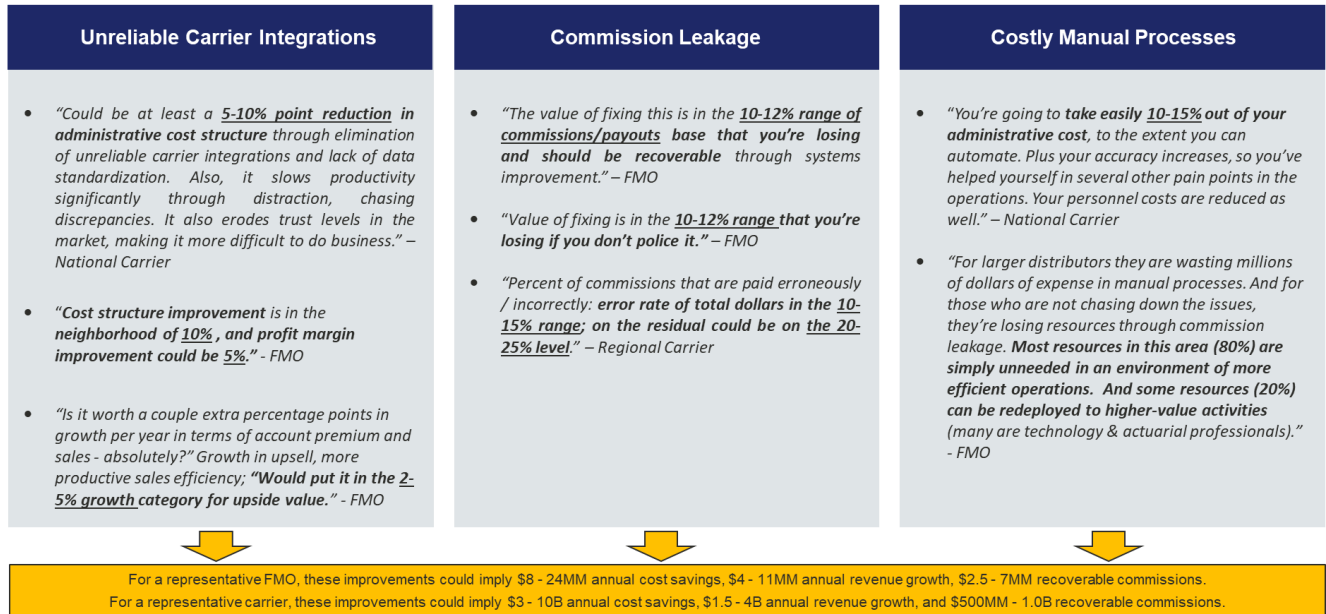


	Real-Time Optimized Management	Longer-Term Strategic Insight & Progress
<b>Market Spend Optimization</b>	• Adjust market spend continuously to optimize	• Develop best practices, deepen understanding
<b>Agents</b>	• Pinpoint best agents, best practices, optimize agent force	• Develop reputational advantages and broker loyalty
<b>Products</b>	• Optimize product placement in real-time	• Optimize product design and development • Strengthen strategic carrier relationships
<b>Carriers</b>	• Optimize carrier-branded placement	• Strengthen strategic carrier relationships
<b>Customers</b>	• Optimize customer engagement	• Achieve higher customer satisfaction, higher persistency, higher LTVs, greater multi-product ownership

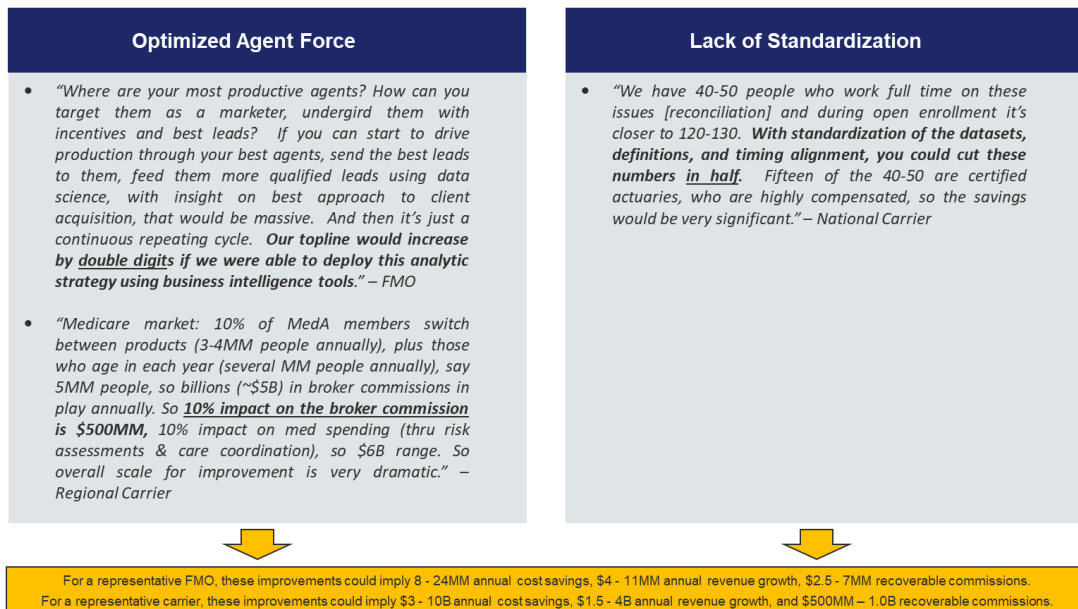
**First-Mover Adopters:** DMS systems also present competitors in the health insurance distribution market with an opportunity to gain immediate strategic advantages over their rivals. DMS systems enable streamlined operations, reduced cost structures, accelerated operations, faster innovation, and an opportunity to gain a competitive edge with the best agents and brokers in the market. Eventually, in long-run steady state, the full distribution chain will adopt and benefit from market-wide adoption of DMS systems. But the path to full market adoption will be different for each competitor. First movers will gain share and begin consolidating the market, while late adopters will find their market positions eroded from the adoption delay. Consumers, brokers, and agents will also benefit immensely from the more efficient and customer-focused market configuration.

**The Path Forward:** Distribution Management Systems are currently nascent, developing, and emerging in the health insurance distribution market. There are significant opportunities both for providers of these systems to establish themselves as the de facto market standard, and for leaders in the distribution chain (carriers, FMOs, agencies/brokerages) to gain early first-mover advantages as they become the market vanguard, creating new levels of efficiency, speed, market growth, cost reduction, and advantaged positions with agents and customers.

## Achievable Performance Improvements Create Strategic Advantage (I)



## Achievable Improvements Create Strategic Advantage (II)



## Strategic Advantage Flywheel

Standardizing, automating, and streamlining distribution management creates a positive feedback improvement loop for first-movers, who gain strategic advantage and market dominance



**Research Methodology:** The insights and conclusions of this market research study are based on 15 in-depth interviews with top executives of leading national carriers, regional carriers, and FMOs in the health insurance distribution market, conducted in April/May 2023. These leaders were drawn from the most relevant functional roles in their organization in distribution, revenue generation, operations, strategy, innovation, and line-of-business leadership of regional and product markets.