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The missed opportunity for US health insurers

At present, most health care payers convert less than 10 percent of the customers who move to a new product class. There's substantial room for improvement.

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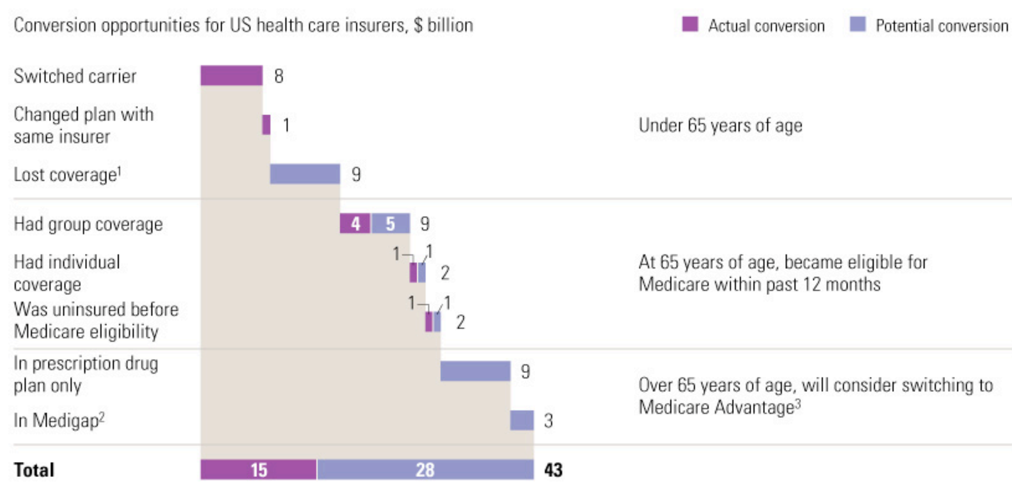
US health care insurers are missing an opportunity to capture low-hanging fruit: better retention of members making the transition between major product classes. The two largest opportunities for such a conversion occur when commercial members become eligible for Medicare (the federal government's health care program for the elderly), at 65, and when they leave group coverage and either move to the individual market or go uninsured. Such cases include job transitions and when dependent children "age out" of their parents' coverage, which also often results in a transition from group to individual coverage.

The industry as a whole, we estimate, has a conversion opportunity worth roughly $40 billion or more a year (exhibit). Yet most health insurers, in our view, will convert less than 10 percent of their members. Many companies fail to recognize the extent of the possible gains and don't have purposeful, integrated strategies to identify and convert prospects. Our consumer research shows, for example, that 68 percent of all members aged 60 to 64 have never been approached by their current insurers to discuss retirement options.

EXHIBIT

The age of opportunity



[1]Assumes household income >$50,000, in top 75th percentile of health index.
[2]Supplemental coverage sold by private insurance companies to fill gaps in original Medicare (now comprising Parts A and B) plan coverage.
[3]Alternative to original Medicare; Medicare pays private health plans a capitated monthly rate for each member. Members typically pay an additional monthly premium for items not covered by original Medicare, eg, dental care, prescription drugs, vision care.

Source: 2007 McKinsey survey of retail health care consumers

Nonetheless, a few best-in-class payers have recognized the potential and have successfully converted up to 70 percent of the customers making the transition to a new product class. The financial-services industry also provides useful lessons for health insurers: for example, Fidelity Investments captures 50 to 60 percent of workers moving from employer-managed 401(k) retirement plans to personally owned rollover Individual Retirement Accounts (IRAs). For larger, diversified payers, conversion opportunities are probably the most attractive potential source of new individual and Medicare members.

One reason this is true is that roughly 3 percent of a payer's group members will convert each year—a figure implying that for each million, it might sell up to 30,000 incremental policies. Moreover, the opportunity is growing as more employers drop group coverage and an increasing number of Americans turn 65. We anticipate that the number of potential conversions will grow by 4 to 8 percent, on average, each year over the next five years.

What's more, existing members may—and should—be relatively low-cost acquisition targets because companies can identify these prospects and market products to them less expensively than to nonmembers. Existing members are typically more likely to respond to outreach from their current carriers and much more likely to buy products. Converted members are often more loyal as well, so their retention rates are higher, and it is easier to then cross-sell other products and services. As incumbents, most payers have a strong starting position with this group: in McKinsey's 2007 retail health care survey, more than 80 percent of respondents aged 60 to 64 said they would consider purchasing an individual product from their current carrier if they left their jobs or retired. Contrary to popular belief, most consumers have positive experiences with their health plans, and many believe that continuing with their current carrier would be easier and less risky than switching. In other words, most consumers have a strong bias toward staying with the carrier they know.

Successful conversion strategies, however, require companies to know consumer buying patterns intimately and to maintain ongoing communication and outreach with members. Medicare conversion represents the largest sales opportunity (other than the open and annual enrollment periods), allows a carrier to make better use of its existing sales force, and reinforces its brand image as a comprehensive provider of all health care coverage needs, regardless of life stage.

Payers face several challenges, however, in capturing the conversion opportunity, especially because it becomes a real possibility only in specific situations and for limited amounts of time. At a minimum, a payer must get in touch with targeted members early enough to offer them workable transition options before they are disenrolled or select another carrier. Many payers assume that their products in various classes are familiar to consumers, but our research tells a different story. Only 33 percent of 60- to 64-year-olds thought that their insurers offered Medicare products, for example, when in fact almost all major carriers do. For Medicare conversions, a carrier must know when its existing members turn 65, as well as which of them are still actively employed, intend to continue working, and have access to employer-sponsored retirement-coverage options. For individual conversions, the carrier must know or be able to predict when a group customer will lose coverage or experience a major life event.

For most payers, captive channels, such as telephone or field representatives, offer the best way forward: these approaches provide the most attractive economics and the control required to deliver a seamless, personalized experience by helping members to decide which products best meet their needs and to make the purchase and enrollment as stressfree and effortless as possible. Payers can also use independent channels, particularly since many conversion prospects originate from, and maintain relations with, independent agents or brokers.

Finally, conversion will force carriers to break through organizational barriers and conflicts. At most of these companies, one line of business (such as individual coverage) tries to convert members by targeting those in another line (such as large groups). This approach can stir up internal sensitivities and requires the organizations involved to share information and to coordinate their efforts. Q

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