Insurers increasingly refuse business from groups that continually shop around for better rates

Even in a competitive market, insurance companies refuse new clients who hop from one insurer to the next trying to find the best price in group insurance. Insurers say they need long-term stability to achieve profitability.

"The first three to five years that a company is insured is not really profitable for an insurance company," explains **Gad Attias**, President at **Groupe Censeo**, a Quebec-based group insurance brokerage. "There are many costs [for insurance companies] when accepting new clients."

Some of the costs attributed to new clients, outlines Mr. Attias, are the high costs of marketing, introducing new clients into the system (printing policy booklets, bills, etc.), commissions, and mutualisation fees (in Quebec only).

Claude Leblanc, Vice-President of group insurance for Eastern Canada at **Sun Life Financial**, perceives shopping as a bad habit. He also acknowledges that for an insurance company, a group is not profitable before three or four years. "We don't want clients who change plans every three years," he exclaims.

"When the group does not remain with the insurer for a long time, we do not have enough time to draw up a profile," he adds. Based on experience, the profile is essential for the insurer since it allows the evaluation of the risk that the group represents.

"If you look at the rate of refusal of insurance companies, it tends to be extremely high," remarks **Jean-Pierre Beaudet**, Regional Director at **Great-West Financial**, "at Great-West, "we have a rate of refusal of about 60%. There are of course many reasons, but one of them is that the group has often shopped around in the market asking for prices."

Shopper's discount?

However, there are a few insurance companies on the market that offer substantially lower rates than other companies. Some propose premiums that are more than 30% less than others, sometimes even without verifying the companies past coverage, explains Mr. Attias.

Some say these discounts encourage this shopping trend. None of the sources contacted by *The Insurance Journal* were willing to reveal the names of the companies offering these low prices. "I can't blame one company over another," expresses Mr. Beaudet, "it happens in waves; sometimes it's one company, other times it's another."

For **David O'Connor**, Regional Group Manager at **Manulife Financial**, a 30% to 40% difference seems a little high. "Maybe on isolated cases, but the bottom line is that of the total premium we charge a given client, the vast majority serves to pay claims. So, if companies are undercutting by 30% to 40%, then they are paying a lot more in claims than they are getting premiums."

Mr. O'Connor explains that if a couple of companies go that route, the first year they offer a great rate and upon renewal, if they realize the group has had terrible experiences, they will want to increase the rates.

Small groups guilty

Apparently, shopping around for the best rates is a common trend among small companies; mainly companies composed of five to 35 employees. Mr. Beaudet indicates that it is simpler to move a small group around. "Larger companies understand better the idea of group insurance."

Unless they are not satisfied with the service, prices for larger groups are similar because larger companies are very credible and the insurers take the experience of the company into consideration before quoting a price, according to Mr. Attias.

Mr. O'Connor clarifies that, in the market, there are still some insurance companies that give out prices without paying much attention to the experience of the company. "At Manulife, we keep a file of all the applications we receive and the quotes that we work on. We tend to keep track of the shopping."

Claude Leblanc

More and more, insurance companies are keeping a record of each client's history in a database, which allows them to refuse clients who have been shopping around. Mr. Leblanc adds that his company maintains a database to help them isolate the main shoppers.

At Great-West, the database goes back three to four years. "As soon as we receive an application, the group is automatically registered into our database. The history of the client is also available on the Internet, the client and the broker have the right to consult it."

Shopping deterrents

To avoid shopping, Mr. Attias suggests that companies be more logical when they are quoting prices. "Insurance companies should try to influence others to be in accordance to the market instead of quoting prices that are lower than the market price."

If a small-scale company wants to cut corners, the best advice Mr. Attias offers is to re-arrange benefits. For example, a company could cover 80% of drugs instead of 100%, which would reduce the premium.

However, Mr. Attias explains that, as a broker, you have the responsibility to serve clients by finding the best price. "But, if an insurance company offers premiums that are 30% less expensive than the market price, the client is most likely going to choose the lower rate before cutting benefits."

Mr. O'Connor provides another alternative rather than forcing these small groups to reduce their coverage. "Medical insurance is going up and is extremely high and some companies are scaling back on coverage they provide. Employers are looking at cost sharing differences between the employer and the employee contributions."

Not all bad

Sun Life, however, does not condemn all forms of shopping. "You have to shop around for the right reasons; the price is not a good reason!" Mr. Leblanc states, adding that a client can shop around for group insurance if it is a question of service.

Mr. Beaudet affirms that if the shopping is based entirely on the price of the service, it leads to negative repercussions for the client. "Looking for the lowest price may cause the risk of having applications refused."

However, most of the time, Mr. Leblanc says that, problems are resolved between the insurer and the client, without having to rupture the business relation. "Clients today are negotiating more and more the state of their service related to their contract and insurers are more willing to listen. We can even say that the link between the insurer and the client is more reinforced. The result, we observe fewer terminations of contracts."

According to Mr. O'Connor, the relationship between a broker and an insurer is critical, particularly in a small group market. "We certainly want to grow our businesses as quickly as possible and as much as possible, however, we won't do it at the cost of risking our long-term profitability, so we will work with brokers who know the business."

Carine Sroujian