



Risk Management Fit for Alabama's Middle Market

In an insurance industry with disruptions at the top and bottom, Valent Group, an EBSCO subsidiary, stakes out the middle market — particularly Alabama's population of moderate-sized companies.

BY CHRIS MCFADYEN
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The insurance industry has undergone massive consolidation in recent years, resulting in fewer companies fighting for bigger chunks of the pie, big corporate clients.

The trend is worth paying attention to even if you are one of the small-to-middle sized companies that mainly populate the Alabama economy.

Mergers and acquisitions in the insurance industry hit an historic peak in 2017, eased some in 2018 and regained momentum in 2019. The second quarter report on M&A activity by specialist Marsh-Berry says the first half of 2019 reclaimed a "record setting pace," with 280 deals in the U.S.

"The M&A activity is actually slowing down now, because it was so active the multiples became outrageous. The prices don't make sense financially," says Paul Barber, CEO of The Valent Group, an insurance broker headquartered in Birmingham that caters to midsize companies.

Being in the middle, Valent Group exemplifies a type of broker that emerged out of the consolidation flurry, as described by Andrew Holderness, global head of Clyde and Co.'s Corporate Insurance Group, talking to Insurance Business in February. "What we've got now is three big brokers, we've got Marsh, we've got JLT and we've got Willis," said Holderness. "Then we have the next tier of brokerages size-wise, and they are looking at those big boys and thinking that it actually creates opportunity for them being smaller.

"Basically, they think they are more flexible, nimbler, more agile, more customer-focused — they're much more in touch with their customer relationships. A lot of them do not strive to be the size of the big three, they see it as a unique selling feature that they're not. And some of them are fiercely independent."

The "next tier" Holderness is talking about is comprised of companies larger than any headquartered in Alabama, but Alabama-based Valent fervently claims the same customer-focused advantage in the wake of the M&A tsunami.

"The private equity firms, when the prices are so high, it accelerates their need to do the financial engineering, cut costs, and it doesn't make the work environment attractive," says Barber. "Customer service goes down and people have to do more with less."

In the words of a third party observer, consolidation "limits choice and has not delivered on its intended promise to be more efficient, more cost-effective and to result in less expensive care for consumers," concludes analyst Greg Andrews, with Corporate Synergies.

Left: Valent Group CEO Paul Barber; Allen Baker, senior vice president of property and casualty; Cooper Johnson, benefits leader, and Hawkins Tatum, member of the benefits team.

Barber and Baker define their niche as companies requiring a consultative relationship with a broker.

"We work for a fee for clients who are in the small to middle market sector," says Barber, whose company stakes Alabama as its territory, with offices in Birmingham, Huntsville, Decatur and Mobile. "In that sector, we feel they expected far too little from their insurance brokers. With most of the smaller agencies, their business model is they try to win on price. Brokers in the midsize market like us realize that trying to win on price is an exhausting experience. That's why the consultant approach is so proper, a much better business model."

Valent Group, says Barber, is a broker of insurance, but the consulting service for which it charges fees is risk management.

"There is very good positive pressure in the middle market, where we play, where companies are too big for the off-the-shelf products and need more consultation and specialization," says Allen Baker, senior vice president of Valent's property and casualty practice. "These are companies spending \$100K to \$500K a year and who still need to talk with someone who will help them drive down their cost.

"From a real estate perspective, we are in a hardening marketplace, where it's not beyond the pale to have 25 to 40 percent increases on property insurance," says Baker. "To drive down cost, you have to restructure your insurance in terms of its policies, perhaps raise deductible levels, look for ways to self insure."

But the biggest insurance costs facing a company often come in the area of employee benefits, especially health.

"With the rise in the cost of premiums in the last 10 years, what we hear from most companies is that health care spending is the second largest cost behind payroll," says Cooper Johnson, Valent's benefits practice leader.

Before the Affordable Care Act, says Johnson, "Companies delegated the benefits world to the HR department. After ACA, with its tax implications and penalties, that decision floated up to the C suite, to the CFO.

"The conversation now is not just health insurance, but about long-term objectives and strategy, and most of the time health insurance companies don't have the time to have this conversation," says Johnson.

Along with the discussion of objectives,

a risk management consultant, says Johnson, must have the capacity for analytics. "You determine the drivers of the cost of health care by looking under the hood. It starts with the data, and without the data, you're shooting blind."

Investment in information technology is one of the factors, say industry analysts, driving the consolidations in the insurance.

For analytics technology, says CEO Barber, Valent has the benefit of being a subsidiary of a major IT company, 75-year-old, privately owned EBSCO, also based in Birmingham.

"EBSCO is a big investor in technology," says Barber. "EBSCO Information Services is driven by technology, and we feel that we have more access to technology than other agencies our size, because of their commitment to technology."

"We are data driven and want to identify the underlying health conditions driving a plan's annual cost," says Hawkins Tatum, a member of Valent's benefits practice team. "Once identified, we deploy strategies to help clients through wellness programs, plan design improvements — for example, offering free generic drugs or diabetic supplies — and employee advocacy."

Among the options to consider in such a conversation with a CFO about health benefits, says Johnson, are tax deferred health savings accounts, cost shifting from premiums to out-of-pocket costs and reduction of out-of-pocket costs with employer-operated primary care clinics. Employer clinics require a threshold of about 1,500 workers but that can be networked among smaller companies.

"If you don't have 1,500, you can use the shared clinic concept, a central location," Johnson says. "We started one in Huntsville and two in Birmingham. They are trying to spend more on primary care, getting people to take care of themselves, by providing easy access at a fixed cost."

"We want to learn about your business and not just quote you insurance," says Barber. "We want to know what is driving your health care cost spend, and we have access to the data and the technology to do that."

Chris McFadyen is the editorial director of Business Alabama.