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July 16, 2012

The Honorable Diana Dooley, Chair  
Peter Lee, Executive Director  
California Health Benefits Exchange  
2535 Capitol Oaks Drive, Suite 120  
Sacramento, CA 95833

Re: Individual Premium Payment Management:  
"Direct Pay" Proposal: Oppose

Health Access California, the statewide health care consumer advocacy coalition, strongly supports the Exchange having the ability to collect premiums from consumers, and performing "premium aggregation" functions.

In particular, Health Access opposes a proposal where the default would be to allow carriers to collect premiums directly from consumers, a proposal referred to as the "direct payment approach".

We believe that the Exchange providing a premium collection and aggregation service is crucial to the success of the Exchange—as a tool for marketing, membership management, and troubleshooting consumer problems. The alternative, the "direct payment" approach, undermines the success of the Exchange, by minimizing the Exchange's connection with consumers, its ability to build consumer awareness and loyalty, and its power to effectively identify issues consumers experience and advocate on consumers' behalf.

In the spirit of evidence-based policy making, we undertook a search of the marketing research literature.

That literature review unearthed the concept of "promotion through transactions" or "transpromo." This literature explains why many companies value having their own billing departments: the monthly bill is literally the most effective marketing available to any company. This literature is undoubtedly known to the marketing departments of the major insurers: it explains the willingness of major insurers to undertake the responsibility of billing Exchange enrollees.

Transpromo is a compound expression formed from the words "transaction" and "promotional". Companies often piggyback promotion or even advertising onto existing transaction-related documents, such as statements, invoices, or bills. Transpromotional efforts combine CRM (customer relationship management) and data mining technology with variable data printing and location intelligence.

The benefits of having the communication in the monthly bill are massive:

1. Openability. Statements and invoices are expected—they contain important financial information and usually require action. More than 95% of transaction documents are opened and read each month – far more than any other type of direct response effort (7% by one estimate).<sup>1</sup>
2. Engagement. Bills and statements receive more attention than any other form of communication including television advertisements. As a result, marketing included in these types of emails and documents has a higher click rate and conversion rate. Studies show that the average customer in the U.S. invests between three and seven minutes for statement review.<sup>2</sup> The monthly bill (online or in print) is considered differently and with more thought than clutter of thousands of promotional messages that bombard us through TV, radio, E-mail, and on the Internet.
3. Reporting. Billers can accurately track detailed promotion activity. This type of detailed tracking and reporting facilitates intelligent, revenue-based marketing decisions, derived from measurable customer behavior.
4. An Ongoing Relationship and Retention. Statement-based marketing is effective because it targets current customers and encourages retention of those customers. Retention is a major object of the Exchange. Even if consumers fall on and off Exchange coverage over the years, the Exchange still has a goal of attracting those consumers back to Exchange coverage when other affordable coverage is not available. The individual market and the uninsured population are both high turnover populations: about half the individual market turns over in under two years and about half the uninsured are uninsured for less than a year. To reach high turnover populations, the Exchange needs high visibility not only during the initial start-up period but also for the years to come. Consumers paying directly to the carriers will minimize the visibility of the Exchange rather than maximizing it.
5. The Ability to Customize Messages. Statement-based marketing is effective because it enables customized offers to be automatically generated by the transactional data within the document itself. It can be personalized according to customer demographics, marketing criteria, and other factors.<sup>3</sup>

As the literature demonstrates, the direct pay option will undermine brand loyalty to the Exchange. The relationship will be entirely with the insurer, and the consumer connects with the Exchange only briefly during eligibility determination, rather than having an ongoing relationship during the period of coverage—even though the Exchange is negotiating on the consumer’s behalf and perhaps facilitating hundreds or thousands of dollars of subsidies.

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<sup>1</sup> Pellow B, Padula E. TransPromo: It’s More Than a Pretty Statement!. InfoTrends Strategic Assessment; May 6, 2008. [http://www.outsourcingintelligencenetwork.com/oi\\_prod/files/SIG/TransPromo.pdf](http://www.outsourcingintelligencenetwork.com/oi_prod/files/SIG/TransPromo.pdf)

<sup>2</sup> Group 1 Software. Are We Paying Attention? A study of the attention span given to bills, statements, official correspondence and direct marketing. Pitney Bowes; 2007. <http://www.pbinsight.com.br/files/resource-library/resource-files/G1AttentionSpanResearch.pdf>

<sup>3</sup> Fernandez, J. Advertising on bills makes a statement. Marketing Week; October 21, 2009. <http://www.marketingweek.co.uk/advertising-on-bills-makes-a-statement/3005714.article>

Consumers paying the premiums directly to the carriers means there is little reason for anyone over 400% FPL to use the Exchange: E-Health will appear to provide comparable service. Even if someone vaguely remembers that they got a subsidy through the Exchange, there will be no reason to return if the payment is made directly to the carrier: why not just deal with the carrier? Repetition is the key to marketing.

When discussing these proposals with UCLA CHIS researchers as a matter of survey research, it's apparent that without premium aggregation, the Exchange (and its benefits) could be invisible to consumers—and thus it would be impossible to track the good work the Exchange is doing for researchers, policymakers, and the public. (We note that it is our anecdotal observation that this already happens with Medicare Advantage and employment-based coverage: people think they have Secure Horizons, not Medicare.)

Having the ability to collect premiums is the ability to, on a monthly basis, provide ongoing, trusted, unbiased information to consumers, including about their rights and obligations. That official, monthly communications is the best vehicle to build loyalty and trust.

There is no obligation for insurers to tell individuals about the availability of subsidies and significant incentives to avoid doing so, particularly for carriers with significant market share outside the Exchange—which will be virtually all carriers given the large group and small group markets. Moreover, if a consumer is dissatisfied, the Exchange should be a place where they can turn to switch plans—rather than if their relationship is only with the insurer (which is unlikely to suggest other carriers), where they might just drop coverage altogether or miss the chance to pick a product from another carrier that might be a better fit for them.

The ongoing communication with consumers, through the monthly bill, is the single most effective marketing tool available to a company and it should be for the Exchange. This is why from our perspective there is literally no amount of money that can be spent on marketing which will make up for a single decision to cede all collections activities to the health plans. What might be simpler administratively at first will be more costly and complex because it will create the need for the additional advertising and marketing dollars, the additional outreach, the additional troubleshooting when a problem arises with a health plan.

This choice is not a minor administrative detail: this is the equivalent of Apple creating the iPod but not the iTunes store that people keep coming back to; to Microsoft ceding its Windows license. It goes to the heart of the role of the Exchange in California's health care system. Is the Exchange a known and trusted source of information and coverage that has a reputation for bargaining effectively on behalf of consumers and businesses? Or is it merely a portal to an eligibility determination to funnel subsidies to insurance companies?

Our view is that the direct pay option condemns the Exchange share of the market to a subset of the subsidy-eligible individuals and closes the door on the Exchange serving the majority of the individual market. Administrative burden matters. So does market share. So does marketing. So does the nature of the market and of the competitors in the market.

We certainly understand why the carriers would very much prefer this approach. It builds brand loyalty to the carrier, it allows the carrier to grab the customer early and hold onto them as long as possible, it creates direct marketing opportunities to skim healthy lives by offering slimmer products, and it minimizes the role of the Exchange both operationally and in terms of visibility to the consumer—and the carrier gets the money sooner. For all these reasons, direct pay to the carriers works well for the carriers. Whether it works well for the Exchange or for consumers are different questions.

Thank you for your consideration of our opposition to this proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "Anthony Wright", with a long horizontal flourish extending to the right.

Anthony Wright  
Executive Director

## Transpromo Literature Review

**Title:** Overview of the opportunities and challenges of “Transpomo”.

**Link:** <http://www.infotrends.com/public/Content/Events/Logos/transpromo08/resourcecenter/Oce1.pdf>

**Description:** Some of the key benefits to Transpromo include exploiting the fact that transactional documents are already trusted documents and on average consumers spend 3 times longer looking at transpromotional messages than direct mail.

**Title:** Audi enhances customer retention through transpromo campaign

**Link:** <http://www.bizcommunity.com/Article/196/14/65116.html>

**Description:** Audi is using transpromo after research findings show that response rates can rise by more than 300%, relative to other forms of communication.

**Title:** Advertising on bills makes a statement

**Link:** <http://www.marketingweek.co.uk/advertising-on-bills-makes-a-statement/3005714.article>

**Description:** A survey and study demonstrating the efficacy of transpromo, and even showing that consumers prefer to receive messages this way. Experts believe that this improves brand perception, customer loyalty and engagement.

**Title:** BBVA Bancomer Finds Success in Transpromo

**Link:** [http://xduonline.net/whitepaper/BBVA\\_BancomerFinds\\_Success\\_in\\_TransPromo.pdf](http://xduonline.net/whitepaper/BBVA_BancomerFinds_Success_in_TransPromo.pdf)

**Description:** This is a case study about BBVA Bancomer’s success in transpromo. BBVA Bancomer has found that using Transpromo improved customer communications, increased response rates to offers, and resulted in substantial cost savings. This approach allowed BBVA to integrate the interests of marketing, finance, product, strategy, purchasing, and customer acquisition departments into a singular customer communication that can serve each department’s needs.

**Title:** ‘Transpromo’ delivers for ING Australia

**Link:** [http://www.ami.org.au/amimu/0712Dec/0712\\_d-mail\\_ing-case-study.html](http://www.ami.org.au/amimu/0712Dec/0712_d-mail_ing-case-study.html)

**Description:** During the 2006/2007 financial year, the Federal Government in Australia made changes to their superannuation law that had a significant effect on ING members. In order to educate and communicate to their members about this law, ING utilized Transpromo. By personalizing the data and using color digital printing, there was a significant lift in response to ING.

**Title:** White paper: A discussion as to the viability of statement white space as an advertising medium

**Link:** <https://www.datam.co.nz/Files/Whitepaper-Transpromo-may2010.pdf>

**Description:** Provides statistics and information on Transpromo.

**Title:** Ensuring document security and privacy in transpromo printing

**Link:** [http://ieeexplore.ieee.org/xpl/login.jsp?tp=&arnumber=5444488&url=http%3A%2F%2Fieeexplore.ieee.org%2Fxppls%2Fabs\\_all.jsp%3Farnumber%3D5444488](http://ieeexplore.ieee.org/xpl/login.jsp?tp=&arnumber=5444488&url=http%3A%2F%2Fieeexplore.ieee.org%2Fxppls%2Fabs_all.jsp%3Farnumber%3D5444488)

**Description:** The security issues surrounding transactional printing are even more relevant with the advent of transpromo printing, where statement information is combined with variable data promotional materials on printed account statements.

**Title:** Teachable transactional documents, by Gallagher, L and Robinson, J. American Printer; Vol. 128, no. 5; May 1, 2011.

**Link:** [http://americanprinter.com/digital-presses/printing\\_teachable\\_transactional\\_0511/](http://americanprinter.com/digital-presses/printing_teachable_transactional_0511/)

**Description:** Consumers indicate a preference for transpromo. It is a very effective way to deliver tips and educate consumers, thereby improving relationships with consumers.