

Adding Value at Health Insurers with ERM

SOA Webinar

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National Public Radio (US)

- <http://www.npr.org/templates/story/story.php?storyId=100430248>
- February 9, 2009 Joanne Silberner
 - Drop in stock price
 - Drop in asset values
 - Drop in covered lives
- Additionally
 - Public relations pricing risk
 - Health care reform

Historical View of Risk

- Silo based – one risk at a time
- Driven by quantitative models
- Mitigation focus (risk controls)
- Rating agency centric

Enterprise Risk Management

- “ERM is the process by which organizations in all industries assess, control, exploit, finance, and monitor risks from all sources for the purpose of increasing the organization’s short and long term value to its stakeholders.”

- Casualty Actuarial Society, 2003

Goals of ERM

Risk Steering

- Focus on exposure
- Scenario Planning (2 sided)
- Strategic planning
 - Enterprise Risk and Return Management
 - Optimize
 - Make better decisions

Risk controlling

- Focus on controls/audit
- What bad things could happen
- Limit downside
- Strong practices provide base for risk steering

Key Elements of ERM Process

- Integrated process
- Identify/prioritize risks
- Involve board
 - Risk appetite/alignment (capacity/budget)
- Common language
- Key risk indicators (leading/lagging)
- Common decision making process
- Emerging risks

Objectives of ERM

- Value added (risk steering)
- Knowledge
- Culture
- Compliance (risk controls)

Skepticism

- Strong culture encourages contrarian thought
- Listen and brainstorm
- Think outside your silo

What's different for Health Insurers?

- ERM Framework/Process is the same
- Risks differ (silos)
- Prioritization is unique

Literature Search

- Kara Clark ERM articles
 - Aug 2005/Jan 2006 Health Section Newsletter
 - ASHRM monograph ERM January 2006 (3 parts)
- The Actuary
 - Bob Wolf's series of articles
- CPD module: Introduction to ERM

SOA Survey – ERM at Health Insurers

- How often is the company risk profile reviewed?
- What documents are given to new board members to describe risks taken?
- How could the ERM program be improved?
- Does the company have a succession plan?
- Is pricing methodology consistent across all purposes?

Comments from Survey

- External stakeholders rarely ask questions about ERM
- Many firms limit their ERM discussion to risk mitigation
- Health consultants focus on silos
- Some use ERM to provide a consistent framework when considering opportunities

Using ERM to Add Value

- Strategic planning role
 - Understand your risk profile – what do you do well? Are you a leader or a follower?
 - Solutions are unique
 - Quantitative/qualitative tools
- Good ERM goes beyond
 - Checklists
 - Rating agency requests
 - Risk mitigation

Scenario Planning – tell a story

- Deterministic scenarios
 - Worried about specific event
 - What if once per century hurricane or pandemic
 - Modeling constraint
 - I don't know how to do it
 - Time constraint
 - I can't do it based on lengthy run time
 - Audience
 - Most boards do not want to see stochastic analysis

Practical Uses of Scenario Planning

- Marginal impact
 - Organic growth
 - Project current block of business
 - Introduce new product
 - Mitigation strategies (e.g., reinsurance)
 - Asset mix/investment strategy
 - Acquisition/Divestiture

Emerging Risks

- What are emerging risks?
 - Completely new risks (some are Black Swans)
 - Evolving risks (creeping)

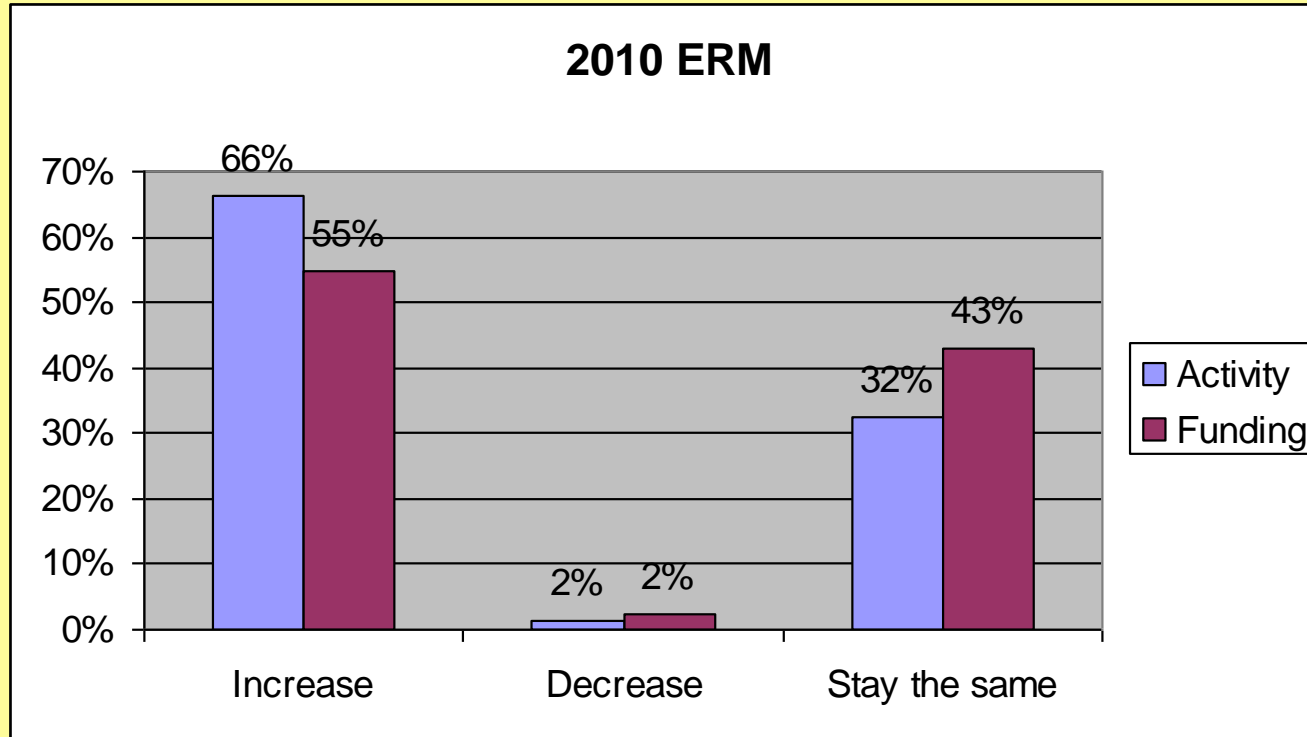
Perfect Storm?

- Environmental scanning
- Mean reversion
- Copout
 - Once per century events don't happen 4 days in a row

Health Emerging Risks

- Health care reform
- New treatments (e.g., nanotechnology)
- Climate change/water shortages
- Natural catastrophes
- Infectious diseases
- Chronic diseases (e.g., obesity)

ERM in Practice



ERM Best Practices

- ERM is used to make strategic and tactical decisions
- Risk culture penetrates all levels
- Board/senior management involvement and buy-in is key
- Emerging risk scanning

Additional material

- <http://library.soa.org/research/health/hlth-erm-practice-health-insurers.aspx>
- <http://www.soa.org/library/newsletters/health-watch-newsletter/2010/may/hsn-2010-iss64.pdf>
- <http://www.soa.org/library/newsletters/health-watch-newsletter/2010/february/hsn-2010-iss63.pdf>

Thank you!

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