

ERM in Health Insurance Companies: Adding Value

SOA Spring Health Meeting
Session 68

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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

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

Key Elements of ERM Process

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

What's different for Health Insurers?

- ERM Framework/Process is the same
- Risks differ (silos)
- Focus on liability and operational risks

Using ERM to Add Value

- Strategic planning role
 - Risk profile knowledge
 - Unique solutions
 - Quantitative/qualitative tools
- ERM is not
 - A checklist exercise
 - A rating agency exercise
 - Just about risk mitigation

Objectives of ERM

- Value added
- Knowledge
- Culture
- Compliance

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
- www.rudolphfinancialconsulting.com

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
- Few health consultants see ERM's value
- Some use ERM to provide a consistent framework when considering opportunities

Risk Committee

- Key product officers from across the company
 - Aids succession planning by providing cross training
 - Builds team that is used to working together
- Chance for other experts to review in advance
 - “Break the product”
 - Avoids some major mistakes
 - Checks and balances
 - Pricing discipline
 - Business units buy in
- Risks debated before accepted
 - Proactive

Scenario Planning

- 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

Practical Uses of Scenario Planning

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

Best Practices

- ERM is used to make decisions
- Risk culture penetrates all levels
- Board involvement
- Emerging risk scanning

Thank you!

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