Table 12

Health Insurance Risk Controls Assessment--Underwriting, Pricing, And Claim Management Risks (cont.)		
Incentive structure is tied to the portfolio-based performance targets that balance risk and rewards.	The insurer has some negotiation power, but doesn't have the ability to consistently negotiate more-favorable-than-peer terms with providers.	Products and service offerings are extremely limited in scope.
The insurer uses standard policy provisions that are applied to all providers and consistently maintains pricing power and has the ability to negotiate favorable terms with sponsors and networks.		
The insurer maintains multiple providers in the portfolio; when possible, provider contract renewals are staggered throughout the year.		

Operational risk controls

86. Operational risk for insurers is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. Specifically, operational risks include information technology and business continuity processes, environmental issues, regulation, compliance, fraud, terrorism as well as human resources, change management, distribution, and outsourcing. Also included is reputation risk, which usually arises with or after some other significant loss.

87. While insurers might be exposed to vastly different operational risks, some of the key elements are essential to all insurers' operational risk controls. These include, firstly, procedures in places to systematically identify operational risks and to monitor, assess, and mitigate those identified risks. Secondly, a sound business continuity plan (BCP) that has undergone multiple drills. A business continuity plan comprises processes and procedures the insurer would follow to limit the adverse impact of an event. Such event could be a natural disaster or terrorist attack that causes a major interruption to the normal course of business operations. Our analysis also focuses on the risk controls around operational risks that are of particular importance to the individual insurer. For examples, a health insurer's risk controls around compliance risks.

88. Table 13 provides some examples of the operational risk-specific evidence that informs our analysis.

Table 13

Operational Risk Controls Assessment		
Positive	**Neutral**	**Negative**
The insurer has thoroughly identified all major operational risks using industry's and insurer's own experience, with a focus on high priority risks.	The insurer focuses on compliance and uses a bottom-up process for risk identification. The process is mostly informed by internal audits.	The insurer has frequent incidences of noncompliance, fraud, and system failures.
For each key operational risk, risk owners are assigned, close monitoring is in place, mitigation actions are initiated, and progresses are monitored	The insurer's identified operational risks are prioritized (using more of an intuitive assessment) according to their likelihood and impact.	Operational risks are not systematically identified, nor are they clearly prioritized.
The insurer has comprehensive compliance standards that are clearly documented, well communicated, and subject to rigorous compliance reviews and audits.	The insurer has some mitigation actions in place, but they're not as proactive or comprehensive as those of leading peers.	Remediation is sporadic and poorly enforced (with no or limited accountability).
The insurer has effective internal audit and compliance functions that work in close coordination with the ERM function, and help assess and monitor operational risks.	There is a focus on disaster recovery rather than business continuity.	There is no disaster-recovery testing.

Table 13

Operational Risk Controls Assessment (cont.)		
Business-continuity and disaster-recovery programs are in place and regularly tested.	The insurer hasn't suffered major losses from operational risk events in recent years; or has had only minor losses and the insurer quickly revised and enhanced the program as a result.	The insurer hasn't translated past operational risk losses into enhancements to the program; losses are quickly put behind.
Loss events and "near misses" are meticulously recorded and (along with industry data) inform the quantification of operational risk.		
The insurer hasn't suffered major losses from operational risk events in recent years.		

RELATED CRITERIA AND RESEARCH

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

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