Creating Value through Integrated ERM for Health Care Insurers in Europe

George C. Orros, BA, MSc, MBA, FIA, FCII
Jane Howell, BA, MBA

Copyright 2008 by the Society of Actuaries.
All rights reserved by the Society of Actuaries. Permission is granted to make brief excerpts for a published review. Permission is also granted to make limited numbers of copies of items in this monograph for personal, internal, classroom or other instructional use, on condition that the foregoing copyright notice is used so as to give reasonable notice of the Society's copyright. This consent for free limited copying without prior consent of the Society does not extend to making copies for general distribution, for advertising or promotional purposes, for inclusion in new collective works or for resale.

Abstract

This paper focuses on value creation for European health insurance companies through the practical application of integrated ERM frameworks.

The European dimension is characterized by the range of relationships between health insurance and the public health care system (e.g., substitutive, supplementary and complementary forms of health insurance that co-exist in Europe), risk sharing models and the varying nature of market regulation. The health insurer is considered as essentially a system of risk dynamics that consists of market participants that interact with each other. Integrated ERM frameworks (including COSO) are considered with reference to the system of risk dynamics. The associated ERM processes and techniques cover the internal environment, objective setting, event identification, risk assessment, risk response, control activities, information, communication and monitoring.

The strategic agenda for ERM and its ultimate effectiveness are determined by the Board ERM effectively impinges on the main board functions and their control cycles (i.e., policy formulation, strategic thinking, supervisory management and accountability). ERM-based policy formulation and strategic planning does not inevitably lead to effective corporate strategies, and vice versa. However, a sound understanding of the value drivers and value destroyers, which implies a comprehension of the risks to take and those to avoid, is a prerequisite for strategic direction.

Value innovation theory and virtual value chains are discussed in the context of integrated ERM. Value innovation theory challenges the view that higher customer value inevitably involves higher costs. Instead, raising customer value comes from eliminating and reducing the factors insurers compete on and creates uncontested new marketspace by creating valued new factors. It can be characterized as the simultaneous pursuit of product and service differentiation and low cost. For value innovators, practical management tools include virtual value chains, which can be used to reconfigure the physical value chain to meet customer value needs in the increasingly digital world of health care insurance services. The underlying concept is that every business competes in two worlds, the physical world (where we can see and touch the products and services) and the virtual world (where we have only digital information, and which is a new marketspace for customers).

Integrated ERM allied to risk and opportunity management has the potential to increase customer value and lead to a sustainable private health insurance business model. The ERM framework needs to be holistic and to involve the insurers and their suppliers, key stakeholders and medical service providers. The objective is to seek to mitigate downside risks and improve the likelihood of achieving benefits from the upside potential, leading to market development opportunities.

The paper includes specific and practical examples illustrating how an ERM practitioner could apply any proposed approaches and how to communicate them to all levels of a health insurance company in Europe.

Availability

To discuss further, please contact the authors at uhcg@cwgsy.net.