



SOCIETY OF ACTUARIES

Article from:

Health Section News

April 2000 – No. 37

Is That Your Final Answer? Face the Challenge of the Future

by Lindsay R. Resnick

So the decision's been made, you have the staying power to remain a competitor in the health insurance business. If that's your final answer, be prepared for change because it continues to be fast and furious. Survival will take extra resources, new expertise, and an incredible commitment from everyone your business depends on. For the carriers taking risk, agents selling business, TPAs managing claims, PPOs negotiating provider deals, or employers buying coverage — health insurance has changed forever.

Undeniably, the health insurance industry is undergoing radical transformation. Traditional medical carriers and managed care organizations alike are finding it increasingly difficult to compete. Tough regulatory conditions, saturated local markets and growing purchaser concern about product affordability are posing major threats to every medical carrier's business. Now, overlay class action lawsuits, risk-based capital (RBC) requirements for health plans and a fiercely competitive e-commerce market.

More than ever, health insurance decision-makers need sophisticated tools to evaluate their options and implement strategies for long-term success.

Can your customer continue to pay the bill?

- Sustained double digit premium hikes
- Escalating prescription drug costs
- Outdated high cost plan designs
- 45 million uninsured...& rising
- "Fewer workers have health insurance on the job"
- "Failure of up to 50% of HMOs not unexpected in 5-10 years"
- "Employer health costs to double in five years"

Start with Value

A practical starting point is a thorough understanding of the value of your business — dissect the underlying components of your business to uncover what's behind the organization's performance, strategic configuration, market position and financial structure.

A basic "value appraisal" means conducting internal due diligence. This can be applied organization-wide, evaluating every aspect of a business, or targeted to specific operating units and product lines. The result should reveal how the market views your business: what's working internally; what's not, and why; and most important, what will it take to sustain future value. An effective valuation will scrutinize management controls, pinpoint performance measures and inventory an organization's core competencies.

Today, the industry is in a pressure-cooker environment made up of Wall Streeters, private investors, Board members and managers of competing enterprise units looking out for their own interests. Your ultimate benchmark of a final valuation needs to convey an important message: justify future capital commitments and demonstrate your capacity to hit ROI targets.

Companies must position for the future by refining critical business focus, aligning market dynamics securing resource strength, and building on past success.

Know the Competition

Maximizing market position means knowing your competition. Beating competitors requires an ability to evaluate their best practices, understand vulnerabilities and learn from their strategies. Competitive intelligence is an integral part of an organization's strategic infrastructure. However, all too often, gathering and analyzing this information is designated as a secondary or last minute effort. Its focus becomes diluted and simplistic.

To be truly useful, market intelligence must reveal how competitors design and implement pricing, operations, and marketing/sales strategies. This means a disciplined, well-organized effort to collect, interpret, and report information. The goal is to help a company's leaders anticipate movement in the market and

Competitive intelligence: Break down the basics

1. Rate & pricing comparison
2. Product & benefit assessment
3. Underwriting & operations standards
4. Market targets & position
5. Financial & risk indicators
6. Strategic & leadership review

know when actions are needed to make internal changes. Results allow a company to address competitors head-on in sales situations, attain product differentiation and recast pricing assumptions. Tomorrow's health insurer will "live or die" by control over market intelligence basics: premium adequacy, managed care value, and operations management.

Don't Be Afraid to Go Outside

It takes resources and talent to survive. Changes in the health insurance and managed care business have caused a shift in the expertise and experience needed to manage effectively. Building this internally can take time and in many markets, it's just too difficult to attract the "right" set of skills.

Many industry leaders have found that external experts help them broaden market strategies and initiate programs that maximize already thin resources. Objective outside expertise helps build responsive, rather than reactive, organizations. These resources fill critical gaps by telling the truth and contributing creative ideas to drive positive change and supplement existing staff.

Health Market Competition: Remember When?

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|---------------|----------------|
| MetLife | Colonial Penn |
| John Hancock | United Benefit |
| Mass Mutual | Arbella |
| New York Life | (Chubb) |
| CNA | Anthem |
| Equitable | Health |
| Nationwide | Woodmen |
| Mutual Group | Central States |
| Boston Mutual | Pioneer |
| Travelers | Prudential |
| Washington | NWNL |
| National | Centennial |
| Pan American | (Jefferson |
| John Alden | Pilot, |
| Provident | Provident |
| L&A | Indemnity) |

Rather than invest in recruiting and hiring staff with highly specialized training, many successful businesses use external experts to reach a new level of flexibility. They acquire "hands-on" experts to lead merger and acquisition efforts, provide technical expertise, implement new programs, and evaluate operational effectiveness. The result is a greater level of expense management, access to new business methods, and an immediate return on a smart resource

investment — all factors critical to a competitive edge.

Consider All the Options

While it takes backbone and mettle and may not always seem politically correct, consider all your options. Today for example, many health insurers are laboring to identify future enterprise strategies to produce a sustainable market advantage. Sometimes the driver is several consecutive quarters of marginal results. Other times it's a debate over the financial investment needed to take to stay ahead of the game. And for many, product-lines such as small group or individual medical simply are not core businesses anymore. In the end, many discover the best long-term strategy is to divest under-performing assets and exit select markets— by state, by product line, or entirely. While a difficult strategy to put forth, it's often the most practical solution for an inevitable situation.

As pressure mounts for financial or risk turnaround, the objective quickly becomes clean-up the block of business and test market receptivity for a divestiture. The challenge, however, is obtaining the best possible price for an in-force portfolio while finding buyers able to meet proprietary needs: companies that can provide consistent, high-quality health protection for customers and distribution partners.

This means a capacity to arbitrage and

manage a business transition. Creating mutually beneficial connections between buyers and sellers is only the beginning. What makes a transaction succeed are a series of customized steps that keep all parties working collaboratively throughout each phase of the process. This means coordinating and sequencing vital administrative and technical details to maximize economic return and minimize business disruption. The result can be a smooth, well-orchestrated business transition.

And that's your final answer: staying power. It will take business acumen, informed judgment and a new set of risk management tools to pull together the ability to succeed in a next generation marketplace. Too much internal focus will lead to bureaucracy, decision paralysis, and missed opportunity. Conversely, over-emphasizing external pressure will result in corporate "tunnel vision," deteriorating infrastructure, and unprepared middle management. Future staying power means the right blend of action-based solutions for businesses facing tough challenges. Your approach must be unique, because your business is unique.

Lindsay R. Resnick is President and Chief Operating Officer of Radix Health Connection, LLC in Chicago. He can be reached at LResnick@RadixHealth.com.

Disability Special Interest Group

The Health Section Disability Special Interest Group (DSIG) is up and running once again! The DSIG was formed several years ago as a sub-group of the Health Section to create a greater presence for disability issues at Society of Actuaries meetings, as well as to provide a forum for disability insurance actuaries to communicate with one another outside of formal industry events. Dan Skwire has recently succeeded Tom Corcoran as the chair of the DSIG.

The first priority of the DSIG is to update its mailing list, which has grown obsolete. The group recently sent out a

mailing, asking for corrections and updates to its list. ***If you did not receive this mailing, then you are not on the mailing list.*** To sign up for future mailings, please send your name, title, company, address, phone, fax, and email to:

Dan Skwire
Milliman & Robertson, Inc.
121 Middle Street, Suite 401
Portland, ME 04101

Phone: (207) 772-0046
FAX: (207) 772-7512
E-mail: dan.skwire@milliman.com

The DSIG plans to send out quarterly flyers with information on disability-related industry meetings, opportunities for speaking and writing, and miscellaneous news items and information requests. If you have any items that you would like to include in these flyers, please send them to Dan Skwire. The first flyer will be mailed this fall.