

## **A Carrier That Makes the Grade**

**Conduct a performance review to find a reinsurer that meets your needs**

**BY MARK TROUTMAN**

**R**emember report card day? As kids, some of us looked forward to—or dreaded—handing our grades over to our parents more than others. In the same way that a report card gives parents an indication of how well their children are performing in school, a similar type of performance review can help HMO reinsurance purchasers evaluate and select a reinsurer.

At renewal time, a purchaser may be tempted to select the lowest price per covered life, or to do nothing and avoid the disruption of changing reinsurers. Some carriers may be tempted to forego reinsurance coverage altogether. While there are sound financial reasons to reinsure, purchasing the wrong coverage or selecting the wrong reinsurer will prevent the purchaser from maximizing value.

Developing a report card on your current reinsurer as well as those competing for your business enables you to make the best value decision, which may not be obvious just from the premiums quoted. As a reinsurance purchaser, the HMO must make certain that its reinsurer does the following:

- provides consistent underwriting over time, which protects clients' balance sheet stability while providing a profit to the reinsurer;
- delivers benchmark customer service across processes;
- provides various managed care programs and services that complement clients' services in an attempt to mitigate severity and frequency risk while delivering high-quality, cost-effective health care to the consumer; and
- provides products and services that assist clients in meeting their vision, mission and goals.

Several criteria can help determine if the reinsurance carrier is at the head of its class.

**Coverage.** A survey of HMO reinsurance purchasers indicates that the most important considerations in a purchasing decision are the level and type of benefits provided for the premium rate. This assumes that the issue regarding reinsurance security (financial strength) is appropriately addressed. To get the most value for your money, look for a reinsurer that provides consultative risk analysis that addresses the following considerations:

- What is predictable risk versus unpredictable risk?
- Where is the health plan at greatest risk for catastrophic claims?
- What is the appropriate reinsurance deductible for the health plan?
- What covered services should be reinsured?
- Which hospitals (contracted or non-contracted) have the greatest effect on the reinsurance program cost?
- What is the real cost of reinsurance?
- What reinsurance limits, explicit and implicit, are being used to control the costs of reinsurance and shift cost to the reinsured?
- What is the cost/benefit of these features, and what is best for the health plan?

Good coverage analysis takes the mystery out of reinsurance. Reinsurance programs should protect your plan based on your needs and risk-tolerance levels. The health plan must make the final decision with a long-term view.

One point to consider is whether the reinsurer helps you design an efficient coverage that maximizes the percentage of claims reimbursed under the coverage structure. Does the reinsurer merely focus on the in-force coverage, or does the reinsurer give you recommendations for coverage changes based on your needs and risk appetite? A top-notch carrier will help you get the most out of your coverage through a consultative approach.

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**Financial strength.** A promise to pay is only as good as the financial strength of the company making the promise. You will want to research how much capital and surplus the reinsurance carrier has and how long the company has been in the managed care reinsurance business. Financial strength ratings are also a crucial factor to weigh in your decision-making process. A good reinsurance carrier should have an A- or better rating from several major rating agencies. Many companies limit their reinsurance business relationships to companies with an A- or better rating.

Security risk lies with the reinsured HMO. There is of course no guarantee that even highly rated reinsurance companies won't have financial problems. However, it's important to establish some financial strength standard and adhere to it. Give a higher grade to a reinsurer with a track record of pricing and claim payment consistency. Reinsurance pricing should replace a highly variable cost with a relatively stable cost.

**Service.** A dashboard or service scorecard may be an appropriate evaluation tool. Dashboards provide a single source for reviewing all significant functions. The purpose of a service dashboard is to

- report actual service delivered versus the customer's service expectations,
- resolve service issues and agree on follow-up actions, and

- create a dialogue about other service opportunities in which the reinsurer might be able to assist the plan with its capabilities.

Look for a reinsurer that offers a dashboard of service standards for all major functions performed in the reinsurance contract. The reinsurer should have systems in place to monitor results on these deliverables. Table 1 illustrates key service standards and performance results you may want to include.

**Table 1 Sample Service Scorecard**

Function	Target Time Frame	Actual Results
Underwriting	Quotes issued 7-10 business days from complete information (depending on premium level and coverage parameters).	5 days
Binder and contract issuance	Contracts to client for signature 30 days from signed binder. Binders signed within two working days.	28 days
Managed care savings report	Quarterly distribution (by e-mail). Questions answered within 48 business hours.	100%
Phone calls and letters	Response within 24-48 business hours.	100%
Experience refunds	Checks to client 30 days after receipt of all information/sign-off on liability.	100%
Installation visit	15-30 days from effective date.	20 days
Other communications	Quarterly teleconferences with client. Client visits as needed.	100%
Claims – Electronic submission – Non-electronic submission	Accuracy target = 99% 30 days from complete information. 40 days from complete information.	100%
Premium administration	All discrepancies resolved within three working days.	100%

These standards provide a basis on which to judge the service objectively. It is also advisable for a reinsurer to offer the client a customer survey, which allows the client to indicate qualitative satisfaction level with various services (e.g., very satisfied, satisfied, dissatisfied).

**Partnership.** You want to find more than just a reinsurer—you want a true business partner. Find out if the reinsurer has products and services and personnel to help the HMO with needs for employer stop loss, out-of-area/PPO/point-of-service coverages, group life insurance and other ancillary benefits. Such products and services broaden the

relationship with the HMO client and create a partnership rather than a relationship focused on commodity pricing of HMO excess risk; they assist the HMO client in meeting its vision, mission and goals.

The professionalism, knowledge and experience of the reinsurer's staff should also be key factors in the decision-making process. Are staff well prepared in their proposal presentations and service calls? Do they follow up on their promises? How often do they call or visit to discuss important issues they are seeing in the marketplace?

**Managed care services.** Some health plans have all the managed care capabilities they need to control their frequency and severity risk. Others seek assistance from their reinsurer and external vendors. You want a reinsurer that is capable of providing an array of managed care programs and services to complement your own in an attempt to mitigate severity and frequency risk while delivering high-quality, cost-effective health care to the customer. Determine how those services are paid for (i.e., if any access fees or costs by the vendor are ultimately treated as claim costs in the reinsurance agreement). Make sure the reinsurer doesn't build in additional fees for use of such services; they should be delivered at cost. Review utilization and savings reports on the important vendors. Examples include organ transplant networks, neonatal and trauma case management, national PPOs and discounts on pharmaceuticals.

#### **Pass or Fail?**

A report card lets you know where your reinsurer stands – and it provides a contract for moving forward with any required changes or improvements. Just as good grades require hard work, unsatisfactory grades call for a course of action to improve them.

A strong reinsurance partner offers an excellent combination of premium value, financial strength, and products and services. Don't settle for anything less than a reinsurer that puts you on the honor roll.

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