

Taking the risk out of risk management

Paul Marshall of American Safety Insurance explains how effective use of risk analysis and predictive modelling can help a captive to stay one step ahead of the market

‘Scientia potentia est’ is the commonly coined Latin phrase we know as ‘knowledge is power.’ This could be linked to many different businesses and operators, but is especially relevant to the captive insurance programme industry. As this form of risk transfer becomes more and more necessary, every bit of knowledge or ‘risk data’ has to be exploited for its full potential in order to stay ahead of the curve and execute business decisions as successfully as possible. I am describing the art of ‘risk analytics,’ and how it can be one of the most important weapons in a captive insurer’s arsenal.

Senior care Long-Term Services and Supports (LTSS) is one of the largest growth industries in the US and insurance programmes that learn how to manage these risks will see exponential growth opportunity.

With the 70 million baby boomers starting to turn 65, there is a new voracious demand for ever increasing healthcare data ‘visibility’ for public review and

scrutiny. This type of care data had been difficult and expensive to obtain in the past, requiring consulting firms to harvest and organise the data into usable chunks.

The utilisation of now widely publicly available data will be a key differentiator in managing successful healthcare insurance captives and programmes.

An example of new published data that would be valuable for a healthcare captive’s risk analysis is the upcoming *National Survey of Residential Care Facilities* (NSRCF), to be released by the National Centre for Health Statistics (NCHS) by the end of the year. Under this umbrella, the NSRCF will consist of three products: a methods report (describing how the NSRCF was conducted), a facility data brief (containing highlights major findings on US residential care facilities) and a public-use data file (containing data collected about the healthcare facilities).

By April 2012, the NCHS also plans to make available to the public a resident public-use file and a data brief, reporting selected characteristics of residents of US



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residential care facilities. The NSRCF, the first nationally representative sample survey of residential care communities, was conducted between March and November 2010. Interviewers collected information on more than 2,300 facilities and over 8,000 residents. Reports like this can be invaluable for healthcare captive managers, giving them a real-time, all-encompassing view that will allow them to shape their insurance program to be right at the cutting edge of the market.

Risk analytics

Using timely and informative data in a responsive and influential manner, when coupled with predictive modelling, help to provide the captive insurance manager answers to very important questions about the risk and gives them a much needed advantage. The reach of risk analytics is spreading through expert third-party

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service providers, the advantages of such sophisticated modelling tools are available to most captives regardless of in-house technological expertise or available capital.

Writing insurance for the healthcare industry is becoming increasingly difficult as everyday healthcare facilities tweak their operations to remain profitable under changing medicaid/medicare reimbursement policies along with evolving regulatory expectations. Over time, rising acuity, additional services, and diminished staffing ratios will lead to adverse incidents if not kept in check. It used to be that these fluctuations in underlying risk would go undetected, but with the utilisation of predictive modelling tools and effective risk analytics, even subtle changes in staffing, acuity and services can be revealed. Predictive modelling provides insurance captive programme managers with the knowledge of any change to risk drivers, thereby allowing the programme leadership to make pre-emptive changes and to manage risk more effectively. For that reason, risk analytics is revolutionising the processes and tools employed by insurers to more quickly and accurately market, price and underwrite their products.

Once a change to a risk driver is detected, the captive can predict how these changes will affect its overall portfolio exposure. From that knowledge, the captive gains deep insight into actual loss costs and can confidently adjust premiums, offer feedback regarding risk management, and continually monitor preferably before any loss occurs. Without predictive modelling and risk analytics, after an account is written, the policy is generally held in status quo with minimal consideration to any variation in underlying risk, until it's too late and a major loss develops.

With improved risk data management, insurers can lower overall costs, charge adequate premiums, reduce claims, gain competitive advantage, and ultimately, increase their market share. It all starts with underwriting the data. Every exposure must be analysed to establish the appropriate premium in order for the

captive to remain viable for the long term. For that reason, experienced industry-specific underwriters who understand the specific risks are critical. Historically, the theory has been vetted and, throughout many risk industries, predictive modelling strategies against traditional underwriting approaches were found to be more accurate. Essentially, predictive modelling can help eliminate the human and emotional response that naturally occurs in the underwriting, loss control, and claim handling process.

With risk analytics, potential claim incidents can be rapidly and cost-effectively analysed. At this time, 'real' risk is identified sooner, triaged appropriately, and dealt with proactively. Effective risk analytics can accelerate the acquisition of knowledge, place claims into proper context, lower claims administration costs, and help improve overall outcome. Moreover, predictive modelling can chart the course for improved negotiations with plaintiffs and, ideally, lower overall settlements. There are many variables that go into each and every case that ultimately determine how it is settled. Once a case proceeds to court, the deciding factor is the six or eight people in the jury box. How they will decide is extraordinarily unpredictable. With the passage of time, the cost to settle any case may increase exponentially. Risk analytics and predictive modelling provide the insurer and the defence team with rapid access to the information needed to manage incidents proactively, triage claims effectively and settle claims before that critical window of opportunity closes.

A captive manager has to play to the strength of risk analytics in order to benefit from it, which includes being savvy and quick enough to respond. This also includes being flexible enough with the tailoring and implementation of a predictive model to match the flexibility of risk analytics as predictive modeling tools are available for any step along the continuum, including marketing analytics, underwriting, risk management, and loss mitigation.

Another advantage of predictive

modelling is the ability to establish more accurate actuarial reserves. With improved accuracy in identifying overall risk, carriers can establish and responsibly change reserves as needed that commensurate with the ever changing underlying risk. Such financial efficiencies allow an organisation to direct their financial resources to the most effective point. This helps make great savings as the captive programme is aimed specifically at the exact areas that require focus – enabled by risk analytics.

Historically, a large portion of the insurance programme's expenses are consumed by initial application and risk underwriting process. Predictive 'sales' modelling can assist in finding suitable accounts much more efficiently than the traditional approach, which requires underwriting the effort of reviewing and analysing more than 10-20 accounts before finding one that fits for the risk programme's appetite. This can be viewed as a sales divining rod, finding the suitable risk with minimum marketing or sales expense outlay.

Risk analytics is not a 'magic solution' for a captive insurance programme and still requires a great deal of work. While risk analytics and predictive modelling have tremendous advantages to offer insurers and risk management organisations, the ultimate value is derived when the experts interpret the information correctly and make the right decisions.

Reading the landscape through accurate data, analysing trends and acting on them accordingly and efficiently, helps insurance captive managers take out some of the risk of managing risk.

'Scientia potentia est', or more simply, 'in the land of the blind – the one eye is king.' 🍷

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