Elevating Health Insurer Strategic Planning In 2018 And Beyond

By Brad Malis

Hope for the Best, Plan for the Worst (and Every Scenario in Between)

The U.S. health insurance industry has been on a tumultuous ride. Over the course of a few months, a string of federal government efforts not only pushed the industry's regulatory future further into question, but is making an immediate impact on insurers' business models.

Beyond regulatory shifts, all signs point to an insurance industry that will continue to be in flux for years to come. For insurance company leaders, this surge in volatility underscores the importance and complexity of strategic planning. To not only adjust, but thrive, in this period of transition, insurance teams must embrace planning tools that are as agile as their businesses need to be.

How Volatility Exacerbates Broken Planning Processes

Adapting in the wake of the October announcement to halt cost-sharing reduction (CSR) payments was the first of many urgent planning exercises the insurance industry will endure. For example, though some were better prepared than others, a number of payors were forced to submit eleventh-hour adjustments to their 2018 premium increase requests.

Going forward, continued regulatory and consumer uncertainty leaves myriad variables up in the air for insurers:

- The amount (or existence) of government subsidies
- Number of policyholders
- Member base demographics (e.g., the average member risk profile)

As these factors fluctuate, the potential scenarios insurers could face grow exponentially. More than ever, financial teams are under pressure to rapidly evaluate different assumptions — something most organizations' current resources can't accommodate.

Consider this: 69 percent of U.S. and 78 percent of Canadian businesses depend on Excel for budgeting and planning, according to Robert Half research. Despite the spreadsheet's staying power, its limited functionality inhibits insurers from integrating the breadth of data and assumptions required for effective planning.

The quality of insurers' planning tools isn't the only issue. Many finance departments suffer from technology sprawl, with different stakeholders using disparate systems to forecast profit and loss, cash flow, investments and a host of other figures. In a fragmented environment, tweaking any one variable in a scenario could necessitate revisions across an entire chain of planning tools. Confronted with an unclear future, insurance companies need strategic planning technology that expedites and augments (rather than stifles) financial teams' work.

Gazing into the Future, Faster

Today's healthcare climate leaves insurers with more questions than answers. From a strategic planning perspective, insurance leaders should be able to pose these questions to their internal models and get clear answers as soon as possible.

Embracing the right technology is a non-negotiable element of efficient, effective planning and scenario analysis. Rather than perpetuate spreadsheet reliance, financial teams must look for a tool that:

- **Models the right variables.** Across industries, businesses benefit from tools that facilitate scenario planning for their overall enterprise. Understanding how different assumptions impact underwriting income (including premiums, claims and administrative expenses) specific to distinct product lines is table stakes for finance departments. Each product serves a unique population (be it an individual, employer or government market), adding more nuance to the planning process. Taking this analysis to the next level, to forecast how product scenarios affect the balance sheet, cash flow or investment portfolio, demands more than rudimentary tools to achieve.
- **Accommodates different accounting frameworks.** Unlike other sectors, health insurance companies follow two sets of accounting standards: statutory accounting principles (SAP) and the more universal generally accepted accounting principles (GAAP). Typically, insurers' strategic models calculate financial statements following the GAAP framework, allowing for adjustments to convert them into SAP-compliant figures. However, one of the most vital metrics that should be reflected in any insurer's strategic planning process is risk-based capital (RBC), an SAP construct. Insurers need planning technology that is robust enough to delineate the GAAP and SAP outcomes of any future scenario.
- **Fully integrates information and people.** In a spreadsheet-driven finance department, gleaning answers to the management team's most pressing questions is a slow, still somewhat manual exercise. For example, adjusting the number of members in a forecast for a specific product line to understand its effect on RBC could take multiple people and systems to uncover. As the questions finance teams field become more frequent and multifaceted, they need technology that connects relevant data, calculations and people by default.

  Modeling changes in income, for instance, means also understanding changes in tax liability (and, subsequently, cash flow). Strategic planning technology should have the right tax logic embedded to automatically calculate these impacts. Another quality to look for is a tool that unites internal teams rather than sustains silos. If models include SAP calculations, investment income and tax assumptions, then the budgeting and forecasting group can't be the only stakeholders involved in building models. Planning teams should look for a solution that fosters collaboration with accounting, tax and treasury, and eliminates redundant work along the way.

Health insurance executives can't conjure a crystal ball to see precisely which forces will disrupt their organizations in 12, 18 or 24 months. With better resources devoted to strategic planning, they can prepare faster and smarter for any situation that comes to pass.

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