

Unearthing opportunity from healthcare reform

Amid fundamental and structural change in the life and health insurance landscape in the US, insurers and reinsurers can take advantage of the opportunities presented by the new healthcare law.

Recent fundamental and structural changes in the US healthcare market, triggered by the gradual implementation of the Patient Protection and Affordable Care Act, aka “Obamacare”, have caused a period of uncertainty in the life and health insurance market.

However, many re/insurers are responding to the challenges presented by the healthcare reforms by exploring new solutions, creating new products and being more innovative than ever, according to David Rains, managing director and global head of the life and health specialty practice for Guy Carpenter in the US. “Increasingly, insurers and reinsurers find they have to react now while also considering how they are positioning themselves in this market going forward,” Rains says.

Despite the fact that many reforms have yet to be implemented, companies are now actively deciding how to adjust to the changes, Rains says. “It is true that any period of serious and profound change creates opportunities—and it is certainly true that some participants see it in that way.”

In the current environment, the role of the broker is becoming more important than ever—especially if the broker can offer value-added services to clients, Rains says. “Services such as risk analytics and predictive modelling are becoming increasingly critical in this market. We deliver that through proprietary tools, such as MetaRisk®, Guy Carpenter’s risk and capital management decision-making product, and by drawing on the expertise of best-in-class solution providers.”

Taking a broad view of delivering high value in the health market, in July Guy Carpenter acquired the Smith Group—widely recognised as the leading authority in long-term disability. “If a reinsurance broker hasn’t invested in its life

and health platform or doesn’t have the resources to do so, it simply won’t be able to address its clients’ changing needs,” he explains.

“The addition of the Smith Group is a powerful example of how we have enhanced our ability to deliver highly differentiated solutions to meet the unique needs of insurers in this space,” Rains says.

On the reinsurance side of the business, Rains is seeing incumbent markets hungry for growth and many new market entrants. This is related, in part, to the amount of capital available in the industry as a whole. As multi-line reinsurers find their traditional markets saturated, some participants are considering their strategic options and are exploring writing life and health business.

“I have never had so many conversations with reinsurers who are asking me about the best way to enter this market,” Rains says. “It is more competitive than ever. Reinsurers with excess capital are seeking yield and they are seeking greater diversity and growth. It is also an evolving market and now could be a good time to move into it. That is certainly good news for buyers.”

But just as there has been a migration of capital on one side of the business, Rains also is witnessing the movement of risk in other parts of the market. One of the biggest consequences of the new healthcare law is that many millions of previously uninsured Americans will now be able to, and in fact are encouraged to, buy coverage. They will therefore receive healthcare through health plans that are financed in a new and different way.

“This changes the dynamic of the market and the types of risks ultimately being covered,” Rains says. “One of the big topics in the market at the moment is how insurers plan for that and what impact it will have on their claims volatility.



David Rains

“Reform is now inevitable across the board and it is for the industry to respond in a positive way.”

They need to re-analyse how they project claims and manage the increased potential for volatility both in claim frequency and amounts.”

One of the other related consequences that could emerge through this is insurance companies that previously operated primarily in the business-to-business (B2B) market, could now find themselves increasingly competing in a business-to-consumer (B2C) landscape as they begin to participate in insurance exchanges—both public and private.

Those exchanges will offer coverage under Obamacare regulations. “There could be growth and opportunities in those areas for some insurers but it also represents new territory and operational challenges for them,” Rains says. “But that just demonstrates what fundamental changes are occurring in the market. There is no longer any point delaying when it comes to implementing strategic changes. Reform is now inevitable across the board and it is for the industry to respond in a positive way.” ■

David Rains is a managing director and global head of the life and health specialty practice at Guy Carpenter & Company, LLC in the US. He can be contacted at: David.A.Rains@guycarp.com