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Some MCOs Work to Bring Revenue From Stop-Loss Reinsurance Business In-House

As health insurers increasingly target self-insured customers, some are bringing new focus to a related business line: selling stop-loss reinsurance to these companies. Many MCOs historically have left that business to third-party carriers. Last month, however, WellPoint, Inc. said it would start working to bring more reinsurance business in-house. But a consultant says MCOs will have to offer more competitive premiums and creative products in order to get a bigger share of the stop-loss market.

When an employer chooses to self-insure medical benefits, it essentially acts as the insurance company for its employees, paying for most health expenses that workers and dependents might incur. If the claims cost is lower than was expected, the company might save money by self-funding, since it can pocket the difference between expected and actual medical costs. But if claims are significantly higher than expected, the employer could lose a bundle.

For that reason, all but the very largest employers — those with more than 10,000 workers — purchase reinsurance coverage, paying another carrier to take the risk for unusually large claims for conditions like organ transplants, severe burns or neonatal intensive care. Depending on the employer's size and appetite for risk, a firm might purchase reinsurance to help pay for any claim from $50,000 to $500,000.

"Most of the major ASO [i.e., administrative services only] carriers do not want to lose the [business of offering] stop-loss coverage," explains Donna Snowden, a vice president and health and welfare practice leader in Aon Consulting's Charlotte, N.C., office. "It's another product line for them," she says.

The very largest MCOs, such as CIGNA Corp. and Aetna, Inc., have offered their own internal stop-loss coverage to clients for years. Some MCOs, like Great-West Healthcare, actually require that smaller employers purchase their stop-loss coverage and strongly encourage it for larger companies. Others, like WellPoint, Inc., have partnered with external stop-loss carriers in some states, recommending a preferred carrier to clients.

At its Dec. 6, 2005, investor conference, WellPoint said it planned to boost reinsurance sales. "One of the things that we have been looking at during 2005, and we will be implementing in phases through 2006, is to bring more of our stop-loss reinsurance in-house," said Tom Byrd, president of subsidiary Anthem Blue Cross Blue Shield of Virginia. In some markets, such as Virginia, WellPoint provides stop-loss insurance to virtually all of its self-insured customers. But "in other markets, we were letting other carriers have the opportunity to make the profit on the stop-loss reinsurance," he said.

Byrd tells *MCW* that reinsurance "is priced to make money for us as a product line — and it has done just that for number of years," he adds. "We're not talking about huge, huge numbers — but it's profit we can retain within the company rather than shifting it out to an outside reinsurer." He says that "[reinsurance] margins are as good" as in the health insurance business, "but the volumes are smaller." WellPoint doesn't disclose specific results for its reinsurance business. For the third quarter of 2005, the insurer reported an overall operating margin of 8.6%.

"[Reinsurance] margins vary dramatically by carrier and by player out there," says Doug Stefanson, senior vice president of underwriting for Great-West Healthcare. "In recent years, the margins have been a little better on fully insured business and in the health care business in general because most people had overpriced the trend in 2003 and 2004," he explains. "That [benefit] flows through to your stop-loss claims.

"A lot of individual Blue Cross and Blue Shield organizations in different states have typically farmed out their stop-loss to stop-loss reinsurers," he adds. "If you can bring it in-house, you can make money on it — but you take risk. You can lose money."

Buying Reinsurance From MCO Has Benefits

Often, it's simpler from an administrative standpoint for the employer to purchase stop-loss coverage directly from the medical insurer, experts say.

"If you start carving it out using a third-party vendor, it makes it more complicated" because the policy rules and requirements often don't mirror each other, Snowden says.

Employers assume when buying stop-loss coverage that if you have a catastrophic claim, it is going to be covered," explains Greg Sullivan, director of stop-loss underwriting and pricing for CIGNA HealthCare. But the third-party carrier may define terms such as experimental coverage differently, and thus refuse to cover an expensive treatment, he says.

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In addition, Snowden says, health insurers are more likely to offer a contract for coverage 90 to 120 days prior to the effective date. Third-party carriers typically want to wait until much closer to the effective date, partly in an effort to more accurately estimate the group's risk.

"It makes sense [for health insurers] to try to keep it in-house," Snowden says. "But they've got to be a little bit more competitive.

In many cases, she contends, "the reinsurance that they [i.e., health insurers] offer through their organization may be too expensive." Premiums could be 20% higher than those charged by a third-party reinsurer, depending on the employer and policy design.

Sullivan disputes that premiums vary so much between carriers, however. He explains that stop-loss reinsurance, like medical insurance, is regulated by state insurance departments, many of which require insurers to meet minimum-loss-ratio requirements.

Stefanson adds that hidden policy clauses can make products offered by a third-party reinsurer less valuable. For example, the reinsurer might appear to offer a lower price, but the policy may have hidden exclusions, such as capping reinsurance coverage for a specific medical event at $1 million, he says.

Snowden also asserts that in order to sell more stop-loss coverage, some insurers need to offer more creative products. "There are some different products out there that they've been a little bit slow in developing that third-party stop-loss vendors have been using for some time," she says. For example, some external carriers offer a product that provides a 30% discount each month to employers that have no large claims. But if an employer does have a large claim, it has to use the 30% savings to help cover the costs. "It originally was intended for those employers who historically had very, very good years, as a way of encouraging them to stay with the vendor," she explains.

WellPoint Starts Reinsurance in Georgia

In Virginia, WellPoint uses a large claims database to provide analysis to employers to help them estimate excess risk, Byrd says. "In Virginia, we viewed ourselves as much more than a TPA for a number of years. We help them project what their claims exposure is going to be, and reinsurance becomes just kind of a natural add-on to that," he explains.

In some other states where WellPoint operates, however, the insurer historically has treated ASO customers more like a TPA would, focusing on provider network management and claims administration, Byrd says. "Many other markets have not focused on the projection side."

In 2006, "we're taking the Virginia model to Georgia," he says. The first step was for WellPoint's Georgia Blues plan to end its current preferred-vendor arrangement with an external stop-loss carrier (that Byrd declines to name). The insurer also is working to build the capability to provide financial risk analysis for clients.

Eventually, the model will be moved to other states, probably starting with WellPoint's other East Region states, he says.

Call Great-West spokesperson Tracey Budz at (303) 737-1476, WellPoint spokesperson James Kappel at (317) 488-6400 or Snowden at (704) 347-4080. ✧

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