



## Session 9: Navigating an ERM Launch Through an Industry Sector Storm: Health Insurer Case Study

### Moderator:

Kathryn A Hyland FSA,FCIA,MAAA,CERA

### Presenters:

Sim Segal FSA,CERA

Philip Sherrill

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# Navigating an ERM Launch Through an Industry Sector Storm: Health Insurer Case Study

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**Philip Sherrill, CPA, CIA, CHIE**  
Vice President & Chief Audit Executive  
Arkansas Blue Cross and Blue Shield

**Sim Segal, FSA, CERA**  
President, SimErgy Consulting  
Academic Director, ERM Program, Columbia University  
Author, *Corporate Value of Enterprise Risk Management*



# Agenda

- 2017 U.S health insurance sector
- ERM challenges
- Value-based ERM impact on:
  - Risk quantification and modeling
  - Strategic planning and value creation
  - Risk culture
- Q&A

# 2017 U.S health insurance sector

# Healthcare Industry

## Affordable Care Act

Talent Management  
Succession Planning

## Medicaid Expansion (in Arkansas)

*Annual Funding of Medicaid Expansion*  
*Arkansas Medicaid Strategy*  
*State Regulation (ex. PBM's)*

2016 Presidential Election  
Repeal / Replace / Repair  
Cost Sharing Reductions (CSRs)  
Fee for Service vs. Value (MACRA)  
Single-Payer / Universal Coverage

Industry Consolidation  
Pace of Innovation  
Opioid Crisis

TBD

# ERM challenges

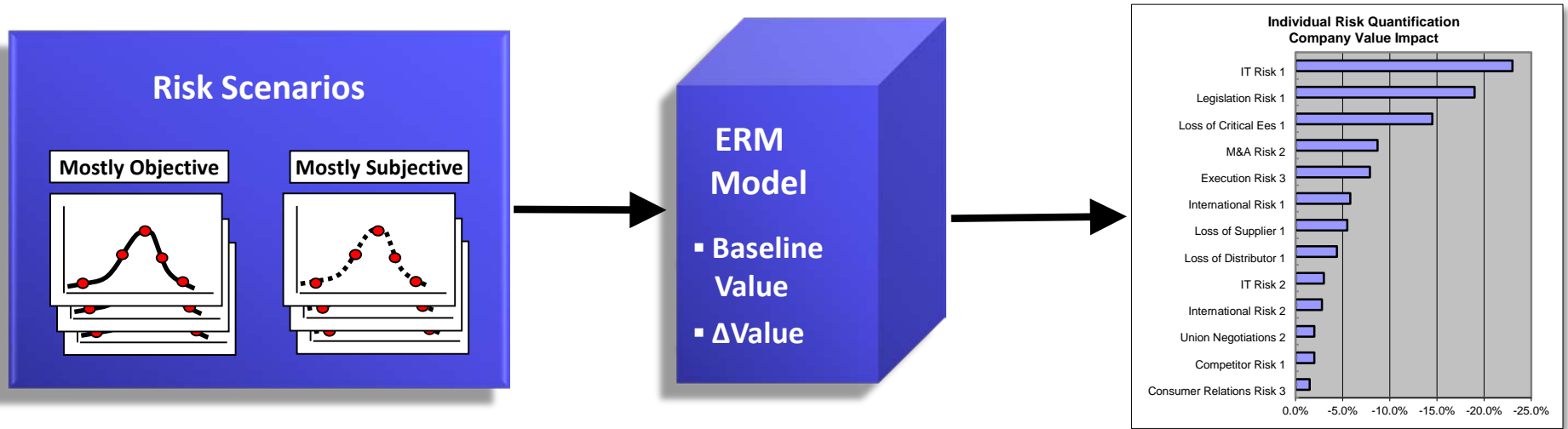
# Defining risk in a value-based ERM context

- Risk = downside + upside volatility
  - Inform risk-reward decision making
- Risk = deviation from baseline strategic plan goals for key metrics
  - With such uncertainty in external environment, strategic plan keeps changing
  - With each change in baseline strategic plan → the following keep changing
    - Baseline ERM model (projection of key metrics) keeps changing
    - List of key and non-key risks (QRA and emerging risk ID)
    - Individual risk scenario quantification (FMEA → IRSQ)
    - Risk correlations (CAFs)
    - Enterprise risk exposure (ERE)
- Case study:
  - Baseline strategic plan dynamically shifting due to historically high volatility of sector

# Value-based ERM impact on risk quantification and modeling



# Ability to quantify all sources of risk: strategic, operational, financial, and insurance



# Modeling

- Developing VBERM model a form of model testing
  - Aggregates projections of other models, providing a reasonability check
  - Identifies suboptimal assumptions in other models, affording opportunity to correct
- Case study
  - Drove enhancements to our established Enterprise Financial Forecast Tool
  - Brought the dynamics of our product pricing methodology into focus

# Value-based ERM impact on strategic planning and value creation

# Value-based ERM strengthens strategic planning process

- Aligns baseline Plan assumptions
- Aligns risk scenario assumptions
- Provides dynamic strategic planning

# Aligns baseline Plan assumptions

- Aggregating projections
  - Identifies inconsistencies between business segment planning models
  - Case study: Structured evaluation, communication and consensus
- Analyzing the valuation
  - Results by business segment
  - Case study: Clear depiction of value created/destroyed by key business segments
- Documenting and disseminating
  - Clarifies explicit and implicit Plan commitments
  - Case study: Enterprise Steering Committee “focus”

# Aligns risk scenario assumptions

- Consistent rigor in developing risk scenarios (FMEA)
  - Guided by FMEA expert with consistent presence of corporate ERM team
  - Case study: Minimized variation; direct knowledge transfer
- Standardized definitions of risk scenarios
  - Relies on risk quantification, not subjective qualitative labeling such as “pessimistic”
  - Case study: Managed altitude, consistent definitions and awareness of “risks taken”
- Uniform assumption about external environment
  - Assumptions shared across enterprise, allowing reconciliation of any differences
  - Case study: Leadership Forum messaging, objectives & priorities

# Provides dynamic strategic planning

- Ability to perform ad hoc strategic planning
  - Reflects changes in internal or external environment
  - Reflects changes in strategy or tactics
  - Models “what if” scenarios
    - On a consistent and integrated basis
    - At enterprise and business segment level
- Case study: Board and Senior Leadership engagement and expectations

# Value creation

- VBERM model calculates value change by providing robust risk-return info
  - $\Delta$  risk =  $\Delta$  enterprise risk exposure and sub-enterprise exposures
  - $\Delta$  return =  $\Delta$  baseline strategic plan projection and key metrics
- Supports business case for all types of decisions
  - Strategic planning
  - Strategic and tactical decisions
  - Transactions
  - Mitigation
- Case study:
  - It changed the discussion – RBC + Economic Capital + Company Value
  - Board engagement around contingencies and mitigations



Value-based ERM impact on risk culture

# Risk culture

- VBERM activities provide
  - Risk education and training
  - Aligns risk dialogue and approach to risk-reward evaluation
  - Increases risk communication and understanding vertically and horizontally
- Key VBERM activities enhancing risk culture
  - QRA interviews
  - QRA consensus meeting
  - FMEA interviews
  - Risk appetite consensus meeting
- Case study:
  - Ongoing interactions and socialization
  - ESC, Emerging Risk Committee, Board Risk Committee

# Q&A

## **Philip Sherrill, CPA, CIA, CHIE**

Vice President & Chief Audit Executive  
Arkansas Blue Cross and Blue Shield

[pesherrill@arkbluecross.com](mailto:pesherrill@arkbluecross.com)

Arkansas Blue Cross and Blue Shield  
601 Gaines  
Little Rock, AR 72201

(501) 378-6692 Office

## **Sim Segal, FSA, CERA**

President  
SimErgy Consulting

[sim@simergy.com](mailto:sim@simergy.com)

SimErgy Consulting  
Chrysler Building, 405 Lexington Ave., 26<sup>th</sup> Flr  
New York, NY 10174

(646) 862-6134 Office