



BEST PRACTICES

A Collection of Best Practices for:

Health Insurance

Includes Detailed Best Practices for:

- Health Plan Operations
- Patient Education & Wellness Programs
- Network Development & Management
- Sales & Business Development



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Health Insurance Best Practices

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Actuarial

Health Insurance

Health Plan Operations

- **Actuarial**

- Claims Processing

- Member Services

- Application Processing

- Member Onboarding

- Underwriting

Patient Education & Wellness Programs

Network Development & Management

Sales & Business Development

— — — The Actuarial function is tasked with performing complex mathematical modeling and statistical analysis to aid in decision-making regarding the mitigation of risk related to health insurance premiums and benefits design. Actuaries assess and assign risk to certain segments of health plan members based on medical history, demographic data, family history and several other factors.

Best Practice 1-A

Automate Relevant Statistical Model Valuation Processes to Reduce Cost Analysis Cycle Time

Develop clear and consistent lines of communication with the Information Technology (IT) Department to not only automate all relevant statistical model valuation processes (includes integration of the modeling function with the health insurance company's enterprise system), but to also implement a formal model governance policy. Work with the IT Department to move to a centralized server-based user environment to reduce risk and cost analysis cycle times, costs and potential errors.

Typical Practice (the Status Quo): Have actuaries use desktop environments and software to develop their own applications for research, pricing and risk analysis. This both reduces the man-power, cost and cycle times typically associated with working alongside the IT Department.

Benefits of this Best Practice: Clear and consistent lines of communication between actuaries and the Information Technology (IT) Department not only automates all relevant statistical model valuation processes (includes integration of the modeling function with the health insurance company's enterprise system), but to implements a formal model governance policy with defined roles and permissions on access, change, promotion and production. Moving to a centralized server-based user environment, furthermore, facilitates both the automation of the statistical model valuation, integration and model governance policy implementation, thus reducing risk and cost analysis cycle times, costs and potential errors.

 **Related KPIs:** Combined Ratio, Medical Loss Ratio, Application Wastage Rate, Total Volume: Claims

Actuarial

Health Insurance Best Practices

Best Practice 1-B

Perform Periodic Cost and Expense Projections to Keep Updated on Changing Real-World Risks

Perform periodic projections of the cost of medical claims (losses) and other expenses to keep on top of changing real-world health risks (e.g., health risks due to fire, windstorms, etc., spread of covered and uncovered diseases, etc.). Use statistical models and historical loss information to forecast an accurate estimate of the amount of losses to be paid out in the future (near or far future) for a particular type, or types of risks (includes risks present in all regions the health insurance company conducts business).

Typical Practice (the Status Quo): Perform yearly projections of the cost of medical claims and other expenses to ensure the health insurance company can modify policy and service prices to accurately compensate any changes in risks. Use statistical models and historical loss information to forecast an accurate estimate of losses.

Benefits of this Best Practice: Policy premium rates are typically driven by the anticipated cost of medical claim losses. When real-world risks (e.g., injuries due to fire, windstorms, etc., the spread of covered and non-covered diseases, litigation, etc.) and their associated costs (e.g., labor, construction materials, health care, and judicial verdicts) are rising, insurers are forced to factor these increasing costs into future policyholder premiums. Or, they may pull out of certain markets (i.e., the kinds of policies offered) partially or entirely. Failure to take one or the other action can lead to insolvency. As such, periodic cost and expense projections not only ensure accurate estimating, but ensures that the health insurance company can keep on top of changes in real world risks. Companies that do not perform periodic cost and expense projections will be exposed to increased financial risk and the possibility of insolvency. This document provides a detailed overview of the best practice, including the benefits and the steps to implement it.

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