ART COLUMN FOR JANUARY

Larger numbers bring efficiency, but how about the service?

By Dick Goff

Unless Congress repeals the law of large numbers (don't laugh – they've done sillier things) all of insurance will continue to look for larger pools of insureds – and that applies whether you're covering homes, Hummers or healthcare.

The law of large numbers isn't really a law in the sense of Obamacare or other foolishness – it's more a natural law, like gravity or the half-life of holiday leftovers that seems to stretch into infinity. But I digress.

Regarding employee benefits, the larger the numbers the better. When you can pull together tens or even hundreds of thousands of individuals, you improve your ability to predict and price the risk of losses from employee health plans.

That's an obvious benefit to employer sponsors of self-insured health benefits plans that may cover a large number of people in a country such as the U.S. But, I wondered to myself one day, what happens when that employer establishes a number of employees in one or more foreign countries? Do the numbers aggregate to the whole or do the overseas workers each comprise a small unit with greater underwriting risks?

Then I applied my favorite tool, ART, to my scenario and thought about how difficult it would be to establish captives in each operational country to cover losses in excess of the sponsor's retention.

But, of course, captives are citizens of the world and easily move about between and among global jurisdictions. A central captive would seem the ideal vehicle to provide excess coverage with equal facility in Trenton, Trieste or Timbuktu.

This would seem an ideal funding solution for excess coverage of widely scattered employee groups. By blending the populations into a statistical whole, the law of large numbers would allow an employer to proceed with confidence.

But wait! I cautioned myself. Healthcare is more than finance – it's also, well, care of peoples' health. Would the law of large numbers apply to groups of employees working in widely disparate social and economic environments? If acceptable standards

of healthcare and service weren't applied everywhere that would seem to throw off the underwriting model.

As so happens in my life, I needed a dose of reality to validate my theory. I turned to Steve Jacobson, a member of SIIA's International Committee who is CEO of Olympus Managed Health care, the international service company affiliated with Assent Medical Cost Management in Miami. Steve's opinion was that, no matter what the funding structure of healthcare, it couldn't occur in a vacuum without regard to the care provided to individuals.

"Employees around the world, particularly if they work for a U.S. company, expect the same level of care and service they would get here," he said. "That can be a stumbling block for people working in foreign countries that don't have the same standards."

He said that for 17 years Olympus Managed Health Care has been involved in care access and quality on behalf of employers around the world with a variety of "concierge services" and the assurance that employees won't have to pull out their foreign currency or a credit card when they need care.

Just as important to employers is the billing review and negotiation services that Jacobson said can equate to network discounts even in places where there are no networks as they are known in the U.S.

Upon reflection Steve agreed that the law of large numbers that could drive healthcare funding could also provide efficiencies of scale to services. "There would be extremely significant savings for the services to blended programs you're talking about compared to the cost of fragmented services organized in separate countries around the world," he said.

David Lubowitz, Managing Director of Assent, joined the conversation to point out that there could be significant savings of costs for health care in many foreign countries if it is managed well. "Look at the trend of medical tourism where people in the U.S. travel to a variety of countries for surgeries or other procedures that can cost a quarter of the price of those services in the U.S."

He pointed out that quality standards of many health care organizations around the world are monitored by the international arm of the Joint Commission on

Accreditation of Healthcare Organizations that has long set the care standards of U.S. hospitals.

When designing healthcare plans in foreign countries, nothing succeeds like having “feet on the street,” Steve Jacobson said, adding that data accrued over years of experience in many countries both helps international employees receive good care and allows for more aggressive underwriting on behalf of employer plan sponsors.

I realized my conversation with Steve and David was just scratching the surface of a very large component of ART in international settings. I’m thinking we’re going to have to write more about this in the future.

Dick Goff is managing member of The Taft Companies LLC, a captive insurance management firm and Bermuda broker at dick@taftcos.com.