

CONTROLLING BUSINESS INSURANCE COSTS

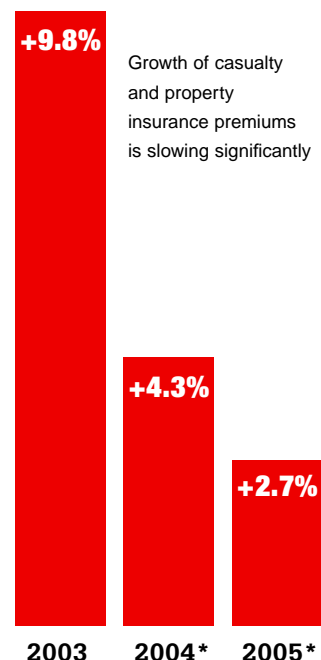
Insurers, Business,
and Government Work
Together To Keep Business
Insurance Costs Down

The Insurance Information Institute's (III) February 2005 industry forecast brought American businesses some much-needed good news on the insurance front. According to the III, casualty and property insurance premiums are expected to rise just 2.7% in 2005, down from an estimated 4.3% increase in 2004 and a 9.8% increase in 2003. Indeed, notes III Chief Economist Robert Hartwig, "premium growth in 2004 came in well below analysts' expectations from a year ago."

These slowdowns in premium growth have not come at the expense of insurers' financial well-being, but rather are the result of "increased economic growth and higher demand associated with the current economic recovery." Indeed, forecasts for the industry's combined ratio, or the ratio of losses and expenses to premiums, continues to represent a "vast improvement" over those of 2001 and 2002. What's more, had the incidence of natural catastrophes in 2004 been in line with historical norms, the industry's combined ratio for the year would have been at its most favorable level in more than three decades.

Still, despite these improvements, insurers and their business customers continue to face some serious cost concerns. In this section, we profile two of the most prominent—health-insurance costs and the aforementioned cost of natural catastrophes—and highlight the steps that some of the industry's leading insurers are taking to help keep these costs under control. *(continued on the next page)*

Growth Slowdown



Source: III
*Estimate

Keeping Health Insurance Costs Under Control

More than a decade after the Federal government attempted to reform the nation's health care system, U.S. health costs are rising as rapidly as ever. According to the National Coalition on Health Care, a Washington, D.C., based research group, health insurance premiums for an average U.S. family by 2006 will exceed \$14,500—and premium costs will have increased by more than \$5,000 in just three years.

Because American businesses pay the majority of these costs, the rise in health premiums significantly reduces job growth, holds down employee wages, and

family of products has intensified Aetna's focus on engaging consumers in health care decision-making and getting the most value from their plan," explains Robin Downey, Aetna's head of product development.

The flagship resource used to help members maximize their benefits is Aetna Navigator™, the company's member-only self-service web site. Aetna Navigator is

>>> THE GOAL

Keep health costs within reasonable bounds while ensuring the highest feasible quality of care, through the elimination of inefficiencies, administrative overhead, and unnecessary treatments.

designed to serve as a "one-stop shop" for members seeking access to a wide range of health-related tools and information. According to the company, Aetna Navigator works to give Aetna members "the information and guidance they need to navigate the health care system and to make the most informed decisions along the way."

Included in Aetna Navigator are Health A to Z and Aetna IntelliHealth, two of the industry's most sophisticated, consumer-oriented sources for health information; a variety of self-assessment tools that allow consumers to gauge their personal health risk and encourage them to adopt healthier behaviors and lifestyles; and a preventive care schedule for essential health screenings, like mammograms, eye exams, and immunizations, based on national guidelines for age and gender.

Controlling Costs

To further boost the utility of its decision-making suite, Aetna last August introduced a powerful new component called "Estimate the Cost of Care," an integrated collection of interactive tools that allow members to project the cost of various treatment options before they even visit their doctor.

The Estimate the Cost of Care toolset enables Aetna members to view health cost information in several key categories, and provides a clear comparison of estimated average in- and out-of-network costs for such products and services as prescription drugs, dental procedures, standard medical procedures, doctor's office visits, medical tests, and specific diseases and conditions.

The toolset thereby reinforces Aetna's existing emphasis on helping its members get the most value from their health benefits. Notes Aetna's Downey: "The Estimate the Cost of Care suite of tools illustrates Aetna's commitment to continuously enhance the tools and information that help consumers anticipate and take charge of their health care expenses." ●

"The introduction of the Aetna HealthFund family of products has intensified Aetna's focus on engaging consumers in health care decision-making and getting the most value from their plan."

—ROBIN DOWNEY, AETNA

forces up product and service prices, making American companies less competitive here and abroad. Clearly, something must be done.

Not waiting for the government to act, a number of health insurance companies themselves have taken farsighted steps to rein in health insurance costs for employers and employees alike. Their goal: to keep health costs within reasonable bounds while ensuring the highest feasible quality of care, by encouraging health-plan members to act as informed, empowered health-care consumers.

Leading the Way

Hartford, Conn.-based Aetna, one of the nation's leading health insurers, is leading the way in developing practical products, tools and information for helping businesses and their employees themselves to bring health-care costs under control.

Central to Aetna's efforts is its Aetna HealthFund® consumer-directed product suite that provides businesses and consumers with vital health-care decision-making information. "The introduction of the Aetna HealthFund

Protecting Against Catastrophic Risk

The year 2004 will be remembered for many reasons, but in the insurance world, one fact will stand out: 2004 was the most expensive year on record for property insurance claims worldwide.

According to one estimate, some 330 natural and man-made catastrophes occurred around the world last year, in which more than 300,000 people lost their lives (280,000 of these were killed or missing as a result of the Asian tsunami). Property losses arising from these events totaled \$123 billion, of which \$49 billion were covered by property insurance.

Despite the catastrophic impact of the Asian tsunami, the

and global coverage, reinsurers tend to be financially strong companies, with a highly rated capital base. In fact, the majority of reinsurers are rate at least single 'A' by Standard and Poor's, and only a few reinsurance bankruptcies have occurred, usually among very small and inadequately capitalized firms.

Still, reinsurers are constantly innovating to protect against the kind of catastrophic risks that the industry had to bear in 2004. Central to this mission are ongoing efforts to prepare ahead of time for such catastrophes—an effort that involves analyzing potential changes in the risk landscape and developing contingency plans and policies for dealing with them.

Because they possess more loss data than any other institution, insurers are in the best position to carry out this "early warning" function. However, insurers historically have made less use of this capability than many experts believe they should have. To overcome this deficiency, many of the world's leading reinsurers have built up teams of experts to study all relevant aspects of risk, from questions of risk perception to the development of new technologies.

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Absolute security, of course, will never be achievable, since the future by its nature is unknown and thereby inherently risky. But manageable risks can be achieved. To reach that point, leading reinsurers believe, industry and public leaders must work together to identify and influence risks early on, and ensure that they have made adequate provision for such events should a loss occur. ●

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majority of these insured losses were due to an unusually high number of windstorms—15 hurricanes in the United States and ten typhoons in Japan—and the increased concentration of insured property in highly exposed coastal regions. Because natural events like weather and earthquakes (and even many man-made destructive acts) are generally beyond control—and because population growth and insured property concentration are likely to continue—insurance companies must look to other means to mitigate and insure against catastrophic risk. Reinsurance itself is one of the most effective tools in this regard.

Insuring the Insurers

Reinsurance is insurance for insurers. Insurers typically buy reinsurance for risks that they cannot or do not wish to fully retain themselves. Reinsurers help the insurance industry to provide protection for a wide range of risks, including the largest and most complex risks that the insurance system covers. Insurers also benefit from the capital relief that reinsurance provides and from reinsurers' product development skills and risk expertise. Reinsurance is thus an indispensable part of the insurance system that makes both consumer and business insurance more secure and less expensive.

Because of their combination of expertise, capital base,

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