HAVE WE REACHED THE EMPLOYEE BENEFIT CAPTIVE TIPPING POINT?

Frederik Van Den Eede, chief customer officer at Generali Employee Benefits Network, on the increasing use of employee benefit captives post Covid and how integrated reporting capacity can offer a solution to risk managers

The pandemic has shone a spotlight on employee benefit captives like never before, exposing certain complex risks such as long Covid and mental health. Consequently, Generali Employee Benefits (GEB) Network is now seeing acceleration in the use of employee benefit captives as powerful risk management tools, not least because the Network now has the framework in place to bring together integrated reporting capability, in terms of disability, medical and occurrence year. This, in turn, gives captive owners the sophisticated risk management tools empowering them to do their job to the best of their ability.

The need for such sophisticated reporting tools has traditionally represented a concern for risk managers with regards to onboarding employee benefits into a non-life captive set up.

Ever since employee benefit captives came into being, their assets to organisations in terms of unparalleled cost savings, controls and flexibility have been lauded by clients, brokers and network partners alike. And while most of the biggest multinationals in the world house at least some of their employee benefits in a captive arrangement, considering the advantages to be gained by doing so, it may seem somewhat surprising that they don't do the same for all their benefits, whether those are life as well as non-life. Or, indeed, it can also be questioned as to why more mid-to-large multinationals don't follow suit.

Frederik Van Den Eede

Frederik Van Den Eede has been working for GEB for over eight years. Starting in the Brussels sales department, within a year he was area manager with responsibility over the Benelux area and soon after the French market. He was recently promoted to chief customer officer, responsible for steering the sales and business development, global intermediaries management and customer relationship management across all regions.

The fact of the matter is that captive managers need to feel a certain degree of comfort with employee benefit captives in terms of underwriting and risk management. It is therefore through working in a lifetime partnership with our captive clients that we enjoy the opportunity of identifying the industry's pain points and working all together to design and implement solutions.

The integrated employee benefit captive risk management framework

The reports we provide to our captive clients follow different dimensions. One dimension is to provide more helpful insights on specific lines of risk like medical reporting (due to high frequency claims, high medical inflations, and so on) or disability reporting (due to the long-tail nature of the risk and recently the attention on the effects of long Covid). The second dimension is from the point of view of a (re)insurance entity, which means experience year (or calendar year) versus occurrence year reporting.

Medical reporting

This journey started some years ago with medical reporting in the shape of the GEB Medical Dashboard, allowing clients to look at coverage in multiple countries and across multiple years. This also includes benchmark data, drilldown functionality for aspects such as top diagnoses for large claims and by age band and benefit category, with the addition of possible stress indicators now available too. The latter represents an innovative clinical assessment of stress indicators gathered from medical claims data to identify some possible stress or mental health issues within a population, with two-level drill-down functionality into relationship type and gender.

Disability reporting

More recently, we added disability reporting to help captive clients better manage their long-term disability portfolio. Leveraging the individual case reserves as well as other key data points related to the claim details, we are able to provide key insights on all of the countries where long-term disability is present.

One of the insights provides visibility to the client on the average duration a member remains on disability, for every age bracket, comparing these to the overall trends we are seeing within that market. Another insight compares the initial reserves set aside at the start date of the claim, with what eventually was paid out to the claimant before returning back to work.

The combination of this information puts the client in a position to take relevant action on the disability portfolio in order to help them better manage this risk and implement concrete actions on the benefit design, pricing and wellbeing initiatives proposed.

Occurence year reporting

And now we can add to this reporting framework with the occurence year reporting. We developed this in conjunction with a captive client and, quickly realising the positive implications for others, we subsequently further developed and launched it to all our clients last year.

We have now converted around 23% of gross written premium with our network partners to reporting in this way. In Q3 2022, we will be adding an additional wave of network partners, reaching over 40% of our gross written premium by occurrence year in 2022. This journey will continue well into the next year, where, by the end, we are aiming to cover more than 80% of our portfolio.

Via a dashboard, clients can then access the required data and metrics that they need to set their renewal rates including the ability to:

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- consider what might and might not be credible or volatile
- target the combined ratio by different lines of business
- compare the medical and disability trend data of the major employee benefit consultancies by country
- apply various models to the data of the year in progress in order to estimate the combined ratios at the end of the current renewal period.

For long-tail risk, such as disability, it is possible to track each calendar year in which a claim applied knowing in what year the original event occurred. This allows the development of claims and possible future risk exposure to be measured.

The key advantages include:

- predictability of renewal pricing
- ability to analyse how profitable renewals are/were
- it is compliant with evolving regulatory requirements
- it's simply a win-win for both GEB and the client in that, after a scheme has been with us for a few years, it omits the need for time-consuming to-ing and fro-ing with network partners to collect the latest data.

Instead, Generali Employee Benefits uploads all the data into the dashboard on a quarterly basis. The last four years' worth of data specific to an individual captive is then shown in order to allow the client to model how the latest year will close based on the previous four years' experience, thereby enabling the client to make some informed and educated renewal decisions.

Data is great; but it's only useful if it helps connect the dots and results in informed analysis and decision making. The framework now available represents a huge step forward for us at GEB as well as for our clients in terms of connecting those all-important dots.