The role of the reinsurer

As well as sharing the financial burden of large claims, travel reinsurers provide expertise in claims handling, as Pierre Saddik explains

Imagine the following scenario.
A 30-year old Canadian female in good health regularly saw her physician for pre-natal care. It was her first pregnancy. She wanted to attend a work-related conference in the United States on a 3-day trip. Her physician approved her travel at 23 weeks' pregnancy. She had no known symptoms or problems reported. On her first night at the hotel she was not feeling well and went to the emergency department of a local hospital, where premature contractions started. The healthcare team administered appropriate medications but did not affect her continuing contractions. With no other choice, the baby was delivered at 23 weeks' gestation, weighing one pound seven ounces. High tech mechanical ventilation, surfactant (lung development), nitric oxide, heart surgery and laser surgeries (for the baby's eyesight) were performed. After four months, the baby was able to be air-ambulanced back to a Canadian hospital for continued care. Total cost: $1.2 million.
Although this situation is highly unlikely, it actually did happen. In the absence of reinsurance protection, the consequences could be financially harsh for the carrier's bottom line – which could be yours.
In my experience marketing travel reinsurance, the first reaction I heard when presenting to a carrier the prospect of such an event was skepticism, disbelief or even a loud laugh.
Statements like 'our claims management team would never let this happen' or 'if this would happen we would negotiate a huge discount' are not uncommon.

Reinsurance as a risk management tool
There is an old saying in the travel insurance business that one claim can make or break the entirety of the travel insurance programme. Many insurers have abandoned this market because of improper planning, inexperienced policy design and lack of adequate reinsurance. Beyond proper case management and discount negotiations with the medical providers, reinsurance is the primary tool that exists to mitigate the impact of such an event.
In simple words, the carrier accepts to cede a share of the risk to a professional reinsurer. In exchange, the carrier pays a reinsurance premium commensurate with the risk. The carrier now becomes a ceding company and the process under which the risk gets transferred is called a cession. The contract of reinsurance is commonly called a reinsurance treaty.

Reinsurance treaties
Reinsurance cession could take one of various forms, or may have a combination:
•Excess-per-person (for example $900,000 in excess of $100,000). In this case, the ceding company's liability is limited to the first $100,000 per person (also called the retention). The reinsurer would absorb any excess amount, up to the reinsurance limit of $900,000 per person.
•Quota-share (for example: 50 per cent of the total risk). In this case, the ceding company would retain 50 per cent of the insurable loss, or $500,000. The reinsurer would also absorb the other 50 per cent
•Aggregate excess-per-year, also called aggregate stop-loss. For example, the reinsurer may cover aggregate claims in excess of a specific threshold

(also called attachment point) for all combined losses incurred in a given year. For example, if the overall premium was $5,000,000 during the year, the reinsurer might cover claims in excess of 100 per cent of the premiums. If the combined claims incurred for the year were $3,000,000, no reinsurance claim would be paid. However, if the combined claims amount to $5,500,000, then the reinsurer would pay $500,000.

• Catastrophic treaty, covering losses on an excess-per-event basis. For example, $9,800,000 in excess of $200,000 (called the deductible) in a single occurrence involving three or more lives. This would cover circumstances such as a major bus accident, a jumbo plane crash, a terrorist attack, a hurricane or an explosion.

The most popular type of reinsurance associated with travel business is the excess-per-person.

In addition, a treaty may be issued on an automatic or on a facultative basis.

In an automatic treaty, each policy issued will automatically be covered as long as it is within a predefined risk and underwriting profile and not specifically excluded. In fact, the reinsurer may have no specific knowledge of a given exposure until it receives a reinsurance report that is part of the self-billing process.

In a facultative treaty, the ceding company must submit each risk to the reinsurer, for approval, rejection or special rating, prior to the risk being covered by reinsurance or prior to the policy being issued issued.

Some reinsurance programmes are divided into layers, each of which could be placed with a different reinsurer. For example, if the selected retention level is $100,000 and the policy limit is $2,000,000:

• First "operational" layer: $400,000 in excess of $100,000.
• Second "shock claim" layer: $500,000 in excess of $500,000.
• Third "catastrophic" layer: $1,000,000 in excess of $1,000,000.

Who reinsures and how much?

Although reinsurance is used for many reasons, in travel insurance the predominant reason is to limit the impact of one big hit. Indeed, since the travel insurance risk is quite volatile and the policy limits may be quite high, it is prudent to reinsure this line of business.

The volatility of the travel insurance risk is due to the fact that there are two risks at stake:

• the incidence risk, how many claims will occur per 1,000 travel-days exposed
• the severity risk, how much a claim will cost. 95 to 99 per cent of the claims will typically cost less than $1,000. However, the other one to five per cent will bear costs ranging up to the $1,000,000 (as in the above example) or even more.

Depending on the size of the carrier and the portfolio distribution, the reinsurance retention may vary, as some companies, uncomfortable with such a highly volatile risk, may retain less.

Smaller carriers will retain in the neighborhood of $50,000 per person, per claim. The larger carriers,

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or the carriers with the larger book of travel business, will typically retain between $200,000 and $500,000 per person, per claim. A carrier of medium size will usually retain between $100,000 and $150,000 per person, per claim.

For the travel medical coverage, the reinsurance premiums for an excess-per-person are typically

expressed as a percentage of the gross written premium (GWP), usually with a minimum premium level.

The cost of reinsurance

When determining cost, it is important to properly evaluate the programme's risk through proven actuarial analysis and input. I have often heard the following words when it was too late: "If only I had known".

An experienced reinsurer can be an invaluable partner from day one, at very little cost. Cost should never be the only determining factor.

Here is an example of how much the cost of reinsurance may be:

Retention level, per person, per occurence	*Travel medical reinsurance premium range (as percentage of GWP)*
$50,000	7% to 10%
$100,000	3.5% to 5%
$200,000	2% to 3%
$300,000	1% to 1.5%

Prices for retention levels higher than $300,000 do not reduce much more and are somewhat incompressible due to the rather catastrophic nature of the risk.

Other factors influencing the cost of reinsurance include:

• the ability of the ceding company to manage its claims
• age and duration mix of travelers
• travel destination mix, for example the US and Japan are more expensive
• risk selection (medical underwriting and pre-existing conditions exclusions)
• risk concentration, for example a sales convention or hurricane exposure
• exposure to war-related risks, terrorism or pandemics.

The various layers alluded to earlier may be priced separately or on a combined basis. Some of the higher layers may have a flat premium structure.

How to choose a reinsurer

Carriers usually tender their reinsurance programmes every five years or so, sometimes more frequently. They may do so either directly to reinsurers, or through reinsurance brokers, depending on their knowledge of the reinsurance market and product specifics.

Criteria on which to choose a reinsurer include:

• price and other reinsurance terms (do not however buy the price – buy the product)
• reputation, track record and experience of the reinsurer in the field of travel insurance
• product expertise
• claims expertise in the handling of large claims
• financial stability as an indicator of its ability to pay claims, e.g. rating by AM Best, Standard & Poor's or Fitch
• licence by the regulators to do business in a certain jurisdiction.

The travel insurance market is itself a niche business in most countries and therefore does not attract a large number of carriers and reinsurers. Moreover, a claim is usually paid in full within a few weeks or months of being incurred, leaving no tail distribution as in the case of disability or liability insurance.

Given the ageing population and today's ever growing ease of travel, such as witnessed by the tremendous growth of the cruise business, one must consider the reinsurer's ability to deal with the occurrence of travel and medical risks in this new and contemporary era.

Large claims management

Large claims are not 'one-size-fits-all'. They hit in many ways without notice. It could be a motor vehicle claim, a heart attack followed by a CABG (coronary artery bypass graft), a premature birth followed by complications (for the mother and/or the newborn), a pulmonary infection on a senior that goes wrong, a cholecystitis (acute inflammation of the gall-bladder) with further surgical complications, a third degree burn, etc.

Depending on the type of medical situation – for example, the intensity and prognosis of the medical condition, the location, the age of the patient, coverage in the home country or the degree of co-operation of the hospital or the physician – the course of possible actions may differ and the range of applicable cost containment tools may vary.

As an example, let us consider a Canadian patient hospitalised for a major heart problem with uncertain prognosis. If the location was Southern Florida with an average daily charge of $10,000 to $15,000, then the claims administrator would quickly co-ordinate a home repatriation as soon as the patient was in stable condition for air evacuation, which costs only $15,000. Had this patient been in South Africa, it is likely that the daily hospitalisation charge would be much cheaper, say

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$1,000-$2,000 per diem, whereas an air ambulance to Canada would cost over $100,000.
In such cases, assuming adequate medical care was delivered in a sound hygienic environment, the proper case management action would be drastically different. It could very well mean leaving the patient at the hospital until discharged, while monitoring the care dispensed.

Claims control

In the case of a large claim, most reinsurers will require prompt notification for two reasons: liability posting, and risk mitigation.
Although risk mitigation is part of every carrier's routine, it is common that once a claim approaches the reinsurance retention, the reinsurer may participate in or sometimes even take over the claims management process, as it becomes its own liability. This is referred to as a claims control or claims co-operation consideration within the formal treaty arrangement and would be restricted to the most experienced reinsurers.
In such case, the reinsurance treaty requires the ceding company to hand off to the reinsurer the management of a large claim once a predetermined threshold is reached. Since reinsurers are familiar with large claims (as this is usually the claims they see), the final amount of the claim can be mitigated due to their experience.
For example, let's say that the likelihood of a large claim (defined as $100,000) is one claim per 10,000 contracts per year. If a ceding company were to cover 1,000 contracts, then it would typically see only one large claim every ten years. Therefore nine years out of ten, it wouldn't have to practise its large claims drill. Its expertise and resources may not necessarily be current on all the new claim management tools or on where to get them. This is why the ceding company usually outsources its claims assistance and claims management functions to a professional claims third party administrator (TPA), which typically serves several clients.
Let us assume a TPA manages ten clients on average. Such a TPA would therefore administer claims for 10,000 contracts and handle one large claim a year, which would still not provide them sufficient exposure to be considered large claim experts.
If a reinsurer covers 100,000 contracts, it sees ten large claims a year on the average. Therefore, based on this experience, they will be able to accumulate cost containment data bases, leading to superior expertise on what course of action would be most appropriate in a given large claim situation, keeping in mind the patient safety first and the cost mitigation second.
Hence, in dealing with a reinsurer that has a large book of business, a carrier will be able to better leverage the reinsurer's expertise and spread of risk to its advantage.

The worldwide travel reinsurance market

Prevalence of reinsurance varies by country. For example, in Canada, where the travel market is estimated at $500 million shared among about a dozen carriers, most, if not all, do reinsure.
In the UK, there are fewer but bigger carriers with higher retention levels.
In the US, where the recently formed US Travel Insurance Association (UStiA) reports an estimated 17 million travel insurance policies are sold each year, the medical insurance market is relatively smaller. This is because people buy more 'first-class' travel insurance for special trips (such as cruises or exotic trips), or package insurance (such as trip interruption, trip cancellation or baggage insurance). Since these coverages have low policy limits, prevalence of reinsurance is lower.

Inadequate policy limits

Many travel medical policies purchased by the consumer have inadequate policy limits. In some countries, typical limits are $25,000 or even less. For someone travelling in the US, even $1 million may be too low. Carriers are advised to turn to their reinsurer in order to upgrade their policy limits to at least $2 million to protect their clients from getting balance-billed by hospitals, which would otherwise taint the industry.
The most successful carriers will be those who will be able to 'sell the product rather than the price'.

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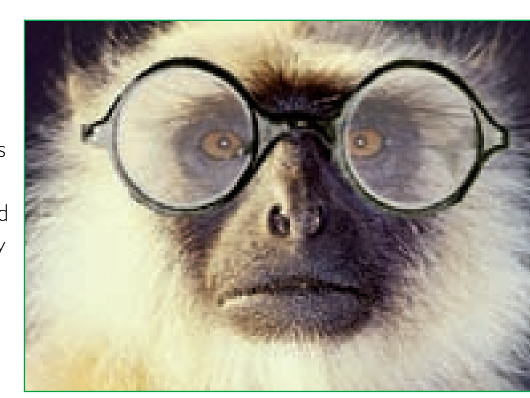
GRAPEVINE

Monkey madness

Police in an Indian city are said to be searching for a monkey that is accused of stealing a tourist's spectacles. Kim Dang Hoon, from South Korea, filed a formal complaint after the primate pinched his glasses from his hotel room in the Hindu holy city of Varanasi. Investigating officer Inspector Govind Singh said: "It is difficult to trace the monkey but I am doing my best to locate the rogue." Thousands of the little monkeys roam the region, making his search quite tricky.
In his written complaint, Kim said he opened his hotel window for some fresh air when the monkey made his move: "He headed straight to the table where my glasses were kept and took them away." Hotel staff later recovered part of the frame, but Kim said he filed the report so that he was able to make a claim on his travel insurance. The system works! Whether or not the perpetrator will be caught is another matter – monkeys are sacred to Hindus, and cannot be hurt.



Insured for everything

Drivers in Denmark have been offered the possibility of an insurance policy that pays out if the insured is caught for a traffic offence. Drivers can now purchase insurance to cover themselves against speeding fines and parking tickets under a new scheme launched by the Danish Automobile Association. Motorists can take out varying levels of cover, from insurance against speeding fines for £90 a year. Insurance for parking fines costs just £36, and covers four tickets, or a maximum of £182 in fines. However, the Danish Council for Traffic Security has attacked the plans, saying it will make people less afraid of collecting fines and encourage them to risk an offence.

Lucky escape

An American man has said he feels 'lucky to be alive' after he was partially sucked out of an air ambulance aircraft 20,000 feet in the air. Chris Fogg is a critical care nurse for an air ambulance company, and was participating in a flight transporting a patient from Idaho to Seattle when he got out of his seat on the two-engined turbo prop place to fetch a water bottle. When he sat back down, he heard a loud boom and the window next to him exploded. He had not had time to buckle his seatbelt, and his head and right arm were sucked out the window. "My left hand was on the ceiling and was holding me in, and my knees were up against the wall," said Fogg.
He pushed as hard as he could and got just enough air between his chest and the window to break the seal. He fell back in his seat, blood pouring from his head. The pilot, he said, knew the plane had gone into rapid decompression but didn't know about the broken window, so he put the aircraft into a dive to a safe altitude of 10,000 feet. Fogg said the patient, who saw the whole thing, was not in any danger as he was on oxygen, but added that he was a Vietnam veteran, and told Fogg the incident had given him flashbacks about being shot down in mid-air. The pilot made an emergency landing and Fogg was rushed to hospital, where he received 13 stitches.