

# Wellness Active Risk Management Model for Life and Health Insurers



**People matter, results count.**

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# 1. Life and Health Policy Transformation

Life and health insurers are grappling with a number of market developments that are driving change in the industry, including: the growing ubiquity of wearable devices; the pervasiveness of social media; the emergence of millennial as the largest market segment; and the emergence of new, non-traditional competitors. In particular, the industry is facing the fact that the protection aspects of insurance no longer resonates with large parts of the target market, which also seems to prefer using non-traditional channels for their insurance services.

The choice for the industry is stark. Insurers can continue with current approaches to the development of products and the marketing of policies, hoping for a different outcome. The alternative is to transform their approach to markets and products to focus on underserved segments: the higher-risk segments of the traditional market, and the large—but skeptical—emerging market of Gen X and Y.

The application of telematics in property and casualty enables providers to offer individual-auto-insurance premium rates based on a customer's specific driving habits. Similarly, the growing popularity of wearable health-monitoring devices gives life and health-payer providers an opportunity to offer customer-specific, risk-based insurance policies. Equally important is the marketing opportunity to change from a "guilt sale" to a "mutually beneficial sale," wherein the carrier and policy-holder are continuously aligned on the rewards of a health-conscious lifestyle.

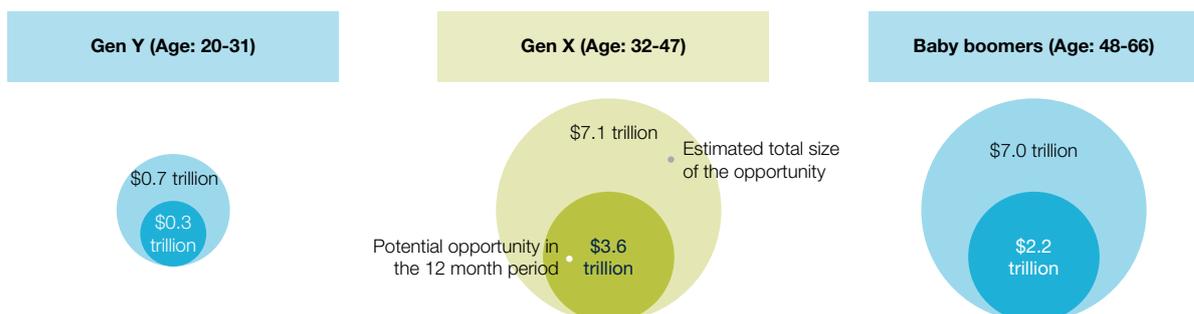
A couple of years ago, the first Wellness-linked life insurance policies were introduced into the US and Far East markets. From a global-industry perspective, this represents the first wave of wellness-aware life and health products for individuals. These products operated on the basis of incentivizing policyholders—through loyalty and reward programs—to increase behaviors generally believed to improve health (e.g. take more steps each day; join a gym and exercise regularly, etc.). In exchange, the insurance industry offers to lower their prices through premium discounts and cash refunds for customers that achieve their wellness-program activity goals.

The next wave of products may offer similar premium discounts and cash-back rewards for customers who meet individual goals consisting of target values of wellness metrics (i.e. rewarding results, rather than effort) that are established by the insurers to address specific health-risk classifications such as weight management, diabetes prevention, etc.

## Exhibit 1: The Underinsured U.S. Life Insurance Market Opportunity

### Untapped market size (\$)

Insurers that use novel approaches and innovative strategies to cost-effectively bridge the life insurance coverage gap within the 32-to-47-year-old age bracket can potentially appropriate the lion's share of this vastly underpenetrated market.



Source: Trillion Dollar Baby — Growing Up. The Sales Potential of the U.S. Underinsured Life Insurance Market, LIMRA, 2011

## 2. The Case for Wellness Active Risk Management

### Capgemini WARMS

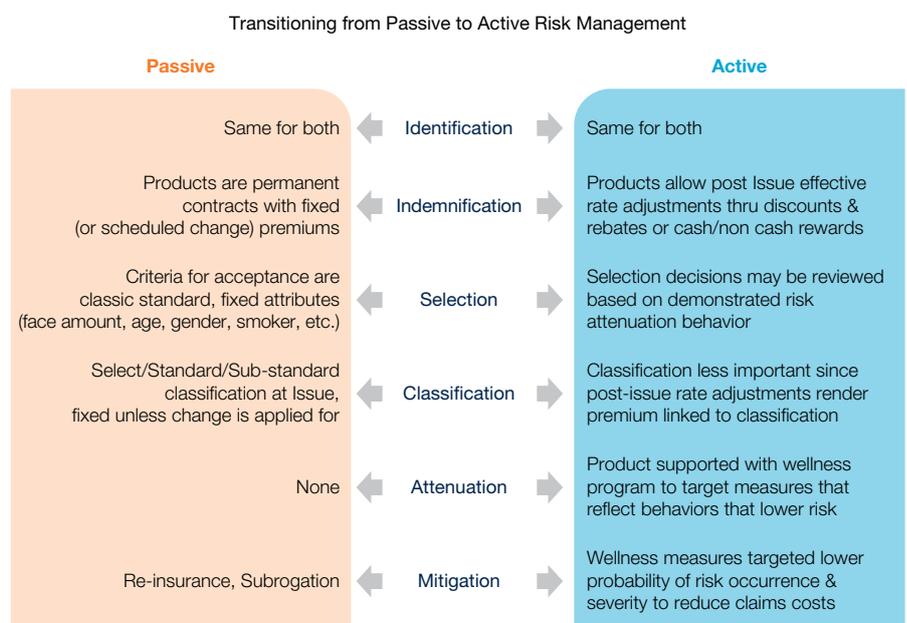
Capgemini has developed an **WARM Services (WARMS)** that enables insurers to transition from a traditional, passive risk-management operations model to a customer-centric, wellness-program model capable of supporting a new category of life- and health-insurance products.

**Wellness Active Risk Management (WARM)** is the process of identification, analysis and mitigation of the probability of occurrence, or the resulting cost of, an insurance claim through incentivized changes in behavior. It applies the tested-and-proven principles of behavior modification in the context of a wellness program that also incorporates a risk-specific approach to setting healthy-behavior goals.

Wellness programs were first developed for employers who instituted behavior-modification programs as a means of mitigating employee health-insurance benefit costs. These programs were also intended to address related issues such as productivity, absenteeism (being away from work due to preventable causes) and presenteeism. (being at work in spite of actual medical conditions that may be communicable). In that context, the benefits of the wellness program were seldom examined in terms of the actual impact on health outcomes, since the more diffuse effect on morale was often invoked to justify the program. Therefore, the behavioral objectives in these group-insurance wellness programs tend to encourage “healthy living” in a much generalized way.

An insurance enterprise that is operating under an WARM ethos is transformed in fundamental ways, from product design to the process for attenuation of claims costs. The graphic below summarizes those changes.

Exhibit 2. Passive vs. Active Risk Management Operations



Source: Capgemini Insurance Practice

# 3. Managing Wellness Incentives

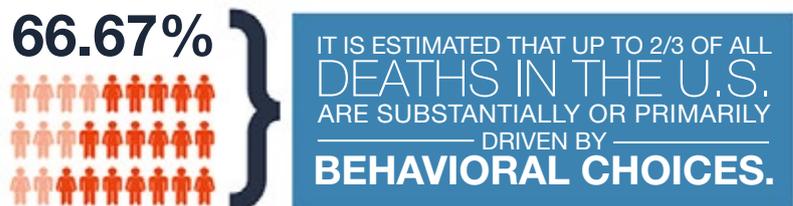
## 3.1. History

As early as the 1920's it was recognized that "... the major risk factors affecting health and longevity at the time (included): environmental hygiene, immoderate intake of food, drug habits (tobacco and alcohol), inadequate activity...". It took the emergence of behavioral economics theory to gain wide-spread acceptance of the idea that decision-making about life-styles choices, such as those enumerated above, can be influenced by incentives.

Now, the use of incentives to encourage behavioral change is nearly universal in wellness programs. Additionally, the financial values of the incentives have grown. In a WARM insurance program, the incentives are considered the consequences of **Goal Attainment** (or Non-Attainment) and are divided into **Premium Consequences** and **Non-Premium Consequences**. Premium Consequences are premium discounts or cash-back rewards, and Non-Premium Consequences are discounted or free goods and services offered by wellness program "loyalty partners" and "rewards providers."

Exhibit 3. Three Major Types of Prevention from Chronic Disease

### BEHAVIOR-DRIVEN CHOICES: HEALTH AND LONGEVITY



Three major types of **prevention** will have the biggest impact on reducing the incidence and prevalence of chronic disease:

	<p><b>PRIMARY PREVENTION:</b> Reduce incidence of disease by addressing risk factors:</p> <ul style="list-style-type: none"> <li>• Physical activity</li> <li>• Healthy diets</li> <li>• Tobacco free living</li> <li>• Avoidance of excess alcohol</li> <li>• Vaccines</li> </ul>
	<p><b>SECONDARY PREVENTION:</b> Identify established diseases:</p> <ul style="list-style-type: none"> <li>• Screenings</li> <li>• Early detection</li> <li>• Prompt intervention to slow or reverse</li> <li>• Adherence to chronic disease medications</li> </ul>
	<p><b>TERTIARY PREVENTION:</b> Reduce established disease complications:</p> <ul style="list-style-type: none"> <li>• Minimize suffering</li> <li>• Maximize health potential of remaining years</li> </ul>

Source: Centers for Disease Control and Prevention: Morbidity and Mortality Weekly Report. (May 2, 2014). Potentially Preventable Deaths From the Five Leading Casuses of Death-United States, 2008-2010. Vol 63. No.17. Retrieved from <http://www.cdc.gov/mmwr/pdf/wk/mm6317.pdf>

### 3.2. Gamification in Behavior Modification

Gamification is an emerging trend that employs the use of game techniques, mechanics, and psychology to analyze and influence engagement and behaviors. The engagement mechanics of a WARM application should enable the building of strong online customer communities that are involved deeply with the attainment of the insured's wellness objectives. Gaming metaphors can give each member of a program participant's social circle an emotional stake in the wellness goals and objectives.

### 3.3. Health Risk Assessments (HRAs)

**Health Risk Assessments (HRAs)** are evaluations of a participant's wellness-measure data to determine the health-risk classification; establish the attainment of behavioral goals; and identify potential health issues. HRAs in a WARM program include self-reported information obtained in response to questions; biometric data from wearable devices; and third-party data obtained by providers contracted by the insurance company sponsor. The initial HRA will likely include third-party data obtained as part of the underwriting process. Periodic HRAs rely predominantly on self-reported and device-reported data.

A **Data Sharing Opt-in** is required before a WARM sponsor can access a participant's wellness measure data to perform an HRA.

### 3.4. Wearable Device Management

Wearable devices are normally paired with a smart-phone application that performs data retention and analysis on a cloud-resident health application (e.g. the Apple Healthkit). When a HRA is performed using wearable-device data, this data is accessed (subject to the opt-in permission mentioned above) and aggregated/summarized to permit comparison with the goals for the evaluation period established for that participant.

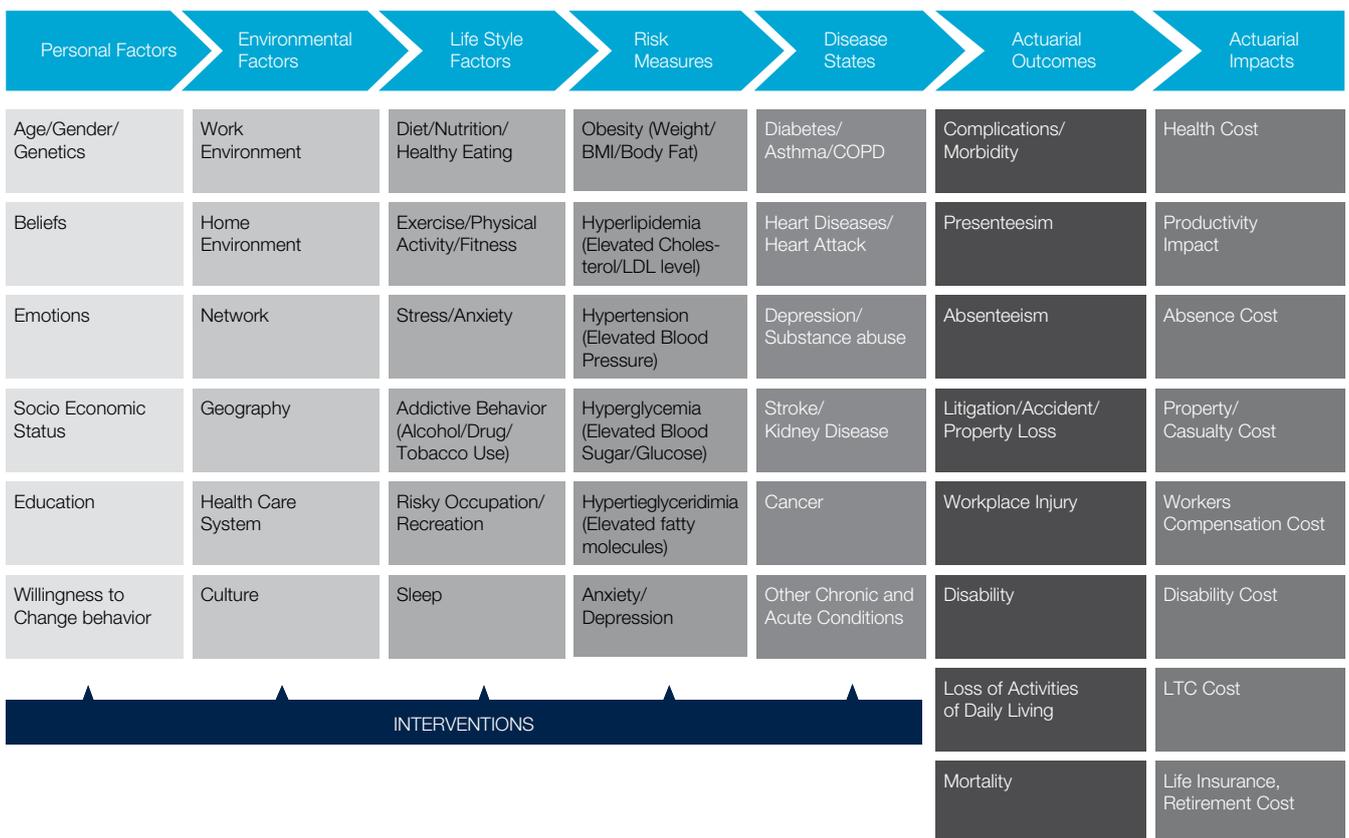
### 3.5. Digitized Input

In order to facilitate the use of third-party-sourced data in HRAs (e.g. para-medical exams, attending physician statements, etc.), Capgemini offers an APS Digitization/Summarization solution that can be used to input document-bound information. This application eliminates the issues associated with manual data-entry efforts for these (potentially very large) documents.

# 4. Wellness Progression Model

Developed by the Society of Actuaries (SofA), the Wellness Progression Model describes the progression from the identification of a wellness measure to how a change in a measure is eventually manifested in the impact on the financial outcomes that are being targeted. Without validation of the quantitative factors, the current model is not a computational model; but it does represent a verifiable hypothesis about the correlation of the stages of the progression to financial outcomes that we can begin to work with in the design of wellness programs.

Exhibit 4: Conceptual Model of Wellness Progression



Source: Derived from "Actuarial Model for Wellness Researcher Interviews," (Sibson Consulting for Society of Actuaries), January 2015 (www.soa.org)

## About the Author(s)



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David Smith is the Vice President of Insurance Transformation Consulting for Capgemini and has over 30 years of experience in the insurance industry that includes the US, European and Asia Pacific life and non-life insurance markets. David's career includes executive positions with global insurance vendor software firms, global IT services firms, and he has also served as an insurance company CIO.



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