Focused on the Big Picture
Group Health Looked for an Integrated and Consolidated Investment Accounting Solution

Business Situation

Group Health Cooperative (GHC) is a consumer-governed, nonprofit health care system that coordinates care and coverage. Founded in 1947 and based in Seattle, Wash., Group Health and its subsidiary health carriers, Group Health Options, Inc. and KPS Health Plans, serve more than 675,000 residents of Washington state and Idaho. Total revenues for the enterprise were $3.2 billion in 2010, with total cash and marketable securities valued at $1.1 billion as of March 31, 2011.

Going into 2007, GHC had amassed significant cash reserves, thanks to strong underwriting profits. GHC’s investment strategy had been almost exclusively geared towards capital preservation, but generating income was becoming an increasingly important objective as the company looked to chase yield more aggressively than it had previously.

At the time the yield curve was flat, allowing GHC to earn moderate interest income by staying short. GHC had a percentage of its total assets invested in cash and cash equivalents, while the vast majority of the company’s investments were shared by four asset managers, who had approximately 80% of their collective allocation weighted towards intermediate-to-long-term fixed income investments. The remaining balance was comprised of equity mutual funds.

“Given the generous yield curve at the time and the investment limitations permitted by the state of Washington’s insurance commissioner, GHC’s asset managers followed largely generic investment mandates. As such, understanding their own investment strategies was less important than charting their results. But this comfortable norm wouldn’t last much longer,” said Bret Myers, Assistant Treasurer and Head of Investments at GHC.

Subtly and over a period of time, reliance on investment income had become a critical component to GHC’s bottom line profitability. However, GHC’s accounting resources were limited and the company’s investment accounting was outsourced. Unfortunately, the provider’s services and the in-house expertise were limited; conditions which combined to pull internal resources away from investment functions and toward administrative duties.

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“If there were questions or issues regarding any managers’ trades, they arose at month-end while the accounting group was trying to close the books. Unfortunately, the information in the investment advisors’ reports tended to be static and stale,” said Myers. It took considerable time and effort to research and investigate each matter. Treasury often did not have any information to work from itself, but instead had to piece together facts that hopefully explained any discrepancies.

There were multiple investment reporting sources, including the outsourced accounting records, custodial reports, managers’ reports, and the company G/L, as well as multiple filings and reports to be prepared, such as GAAP and STAT statements, senior management reports and investment committee presentations. “We spent hours cobbling information for various reports, trying to get information to tie out,” said Myers.

GHC’s OTTI and FAS 157 practices at the time were inadequate for defending management’s impairment assertions, in part because of the lack of detailed historical information regarding GHC’s investments. The company’s desire for an outsourced, web-based solution – one that would allow GHC to deploy staff to more strategic functions, rather than administrative tasks – became an imperative. GHC also wanted a system with no need for additional IT and software expertise requirements, with the ability to customize views and drill down to individual securities.

GHC also struggled to keep up with emerging accounting issues, such as changing GAAP and STAT requirements and guidelines, as well as new asset class requirements. “Overall, we needed a system that allowed us to focus on our core competencies – both as an organization and as separate divisions within GHC,” said Myers.

By implementing a hosted solution from Clearwater, GHC realized the following benefits:

- Aggregation and reconciliation of information from multiple data sources
- Daily accounting, compliance, performance and risk reporting and analytics
- Compliance monitoring and auto-notifications that allow for proactive risk mitigation
- Dedicated account managers familiar with Group Health’s portfolio on 100% hosted system
- Single view of aggregate portfolio and the ability to drill down to the individual accounts and tax lots
- Automated general ledger uploads
- Implementing a more meaningful OTTI policy and practice
- Regularly scheduled enhancements based on regulatory requirements, industry trends and best practices
- Cash flow forecasting
- Full Statutory and Schedule D reporting
- FAS 115-2 impairment capability

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GHC Launches an Intensive Search

During the summer and early fall of 2008, as headlines increasingly indicated that the financial crisis was not going to be blip on the radar, senior management and Board members were asking about GHC’s exposures with increasing regularity and unease. As GHC scrambled to pull together issuer exposures, transaction details and potential impacts, headlines indicated that the extent of the situation was becoming grim. “Telling our executive committee about GHC’s exposure to big name institutions that were failing was a huge wake-up call,” said Myers. “By the time we realized one of our investment managers had a significant allocation to structured MBS, there was little we could responsively do. Without the ability to immediately pull reports based on current, actionable data, we were left putting the pieces together as best as we could.”

Solution Selection

Myers was familiar with Clearwater, but had assumed the company was not equipped to service insurers. “My previous experience with Clearwater indicated it was focused primarily on serving the corporate cash sector and that they hadn’t worked with insurers,” said Myers. “Given our immediate needs and what I’d seen Clearwater do for its corporate clients, I was thrilled to see that they had an offering for insurers.”

Clearwater’s automated accounting, compliance, performance and risk reporting and analytics system would allow GHC to free up resources for performing more strategic tasks, rather than focusing on clerical duties, such as aggregating and reconciling data from custody, credit rating agencies and the NAIC. By rolling up all of GHC’s investment portfolio data into a single source, its treasury and accounting teams would be able to look at the same information – from any location – for any future inquiries or investigations. And because Clearwater performs its reconciliation daily on a web-based system supported by dedicated account managers, GHC wouldn’t have to wait until month-end to determine their exposures in the event of any future market instability.

Also attractive to GHC was Clearwater’s ability to load investment compliance policies into its system, ensuring GHC’s investment policy, manager guidelines, and insurance commissioner limits would be monitored daily, automatically and included in a single compliance report, which would satisfactorily address Model Audit Rule (MAR); a key concern for GHC. “Knowing that we would enjoy far greater confidence from a performance and compliance standpoint made Clearwater’s offer very attractive,” said Myers.

Additionally, Clearwater’s ability to aggregate risk exposures, concentrations and performance data was something no single asset manager or investment advisor would be able to do. Having all of that data in one place, and constructed on a foundation of reconciled tax lots, satisfied key criteria for GHC in selecting a solution provider.

“Clearwater has provided us the rationale that we needed to have a more strategic approach to what we were doing with our fixed income management, as well as more open and honest dialog with our managers about our investment objectives and how they can go about achieving those objectives.”

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Results and Benefits

Since adopting the Clearwater system, GHC has been able to engage in very frank and informed discussions with its external asset managers. Determining impairments in the wake of the 2008 financial crisis was extremely difficult, based on the data they received from asset managers who were heavily allocated in security types that were ultimately impaired.

“Based on the solidity of the data we are pulling from Clearwater, we know that we don’t have to depend on data from asset managers and our custody partners to help us with impairments. It’s a massive leap forward,” said Myers.

When GHC’s treasury division looks at reports, it sees the same information as senior management and the Board. GHC can now compare on an apples-to-apples basis what asset managers are doing, not only relative to their benchmark, but relative to what each has communicated to treasury on a performance level, and in terms of their communicated objectives and strategies. Seeing managed accounts on an individual and aggregate basis allows GHC to see what is contributing to their investment performance overall and what might need to be adjusted in order to fall in line with their greater investment objectives. “Handing over cash to an asset manager, giving him a benchmark to hit and waiting to see whether he does it or not, is not a strategy that works in today’s fluid investment market,” said Myers.

Conclusion

“Clearwater is not just a treasury solution or an accounting solution, but a complete finance solution,” said Myers. “Thankfully, they offer the same level of automation, transparency and immediacy for insurers they provide for their corporate clients.”