HEALTHCARE

Captive Insurance

Annual 2024

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Discover the dynamic world of healthcare captive insurance through this comprehensive annual guide. Gain insights into trends, innovations and future of the market from industry leaders. Whether you are new to captives or looking to optimise an existing one, this annual will be a valuable resource to navigate this space.

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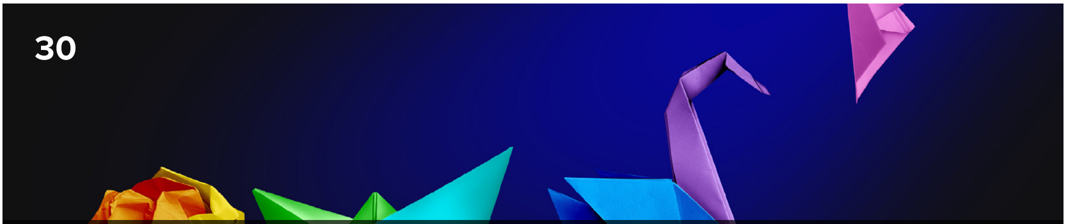

A surge in healthcare captives

Marsh Captive Solutions' Michael Serricchio reviews captive insurance use increases in the healthcare sector

As the healthcare industry continues to expand and evolve, its need for innovative risk finance solutions increases in tandem. This demand results in increased use of captive insurance structures. Captive insurers have long been a valuable tool for healthcare organisations looking to optimise their insurance coverage.

At Marsh, the world's largest captive manager, healthcare ranks among the top five industries in terms of captive use, representing US$3 billion in premiums and US$4 billion in surplus in 2022.

Top domiciles and coverages for healthcare captives

Given the various societal structures for healthcare globally, the majority of organisations with Marsh-managed captives in the sector are based in the US.

The top domiciles for Marsh-managed healthcare captives are Cayman, which holds 38 per cent of Marsh-managed captives; Hawaii holds 14 per cent; Vermont holds 12 per cent, and Bermuda and US District of Columbia both represent eight per cent.

With the ever-increasing size of jury awards — and related insurance coverage — it comes as no surprise that medical malpractice, hospital professional and medical professional liability are the most prevalent risks that healthcare organisations seek to fund in their captives, and continue to be top growth areas in the healthcare captive insurance market.

The top coverages for Marsh-managed captives in the healthcare industry in 2022 were:

- Medical malpractice — 64 per cent of Marsh-managed healthcare captive premium for large hospital systems, major healthcare companies, universities, physician groups and others.
- Workers' compensation/employer's liability — nine per cent, covering healthcare professional staff, physicians, nursing employees and technicians.
- Medical stop-loss — six per cent, generally covering the employees of a healthcare organisation for the employers' risk on medical and pharmacy.
- Third-party liability — three per cent, encompassing voluntary attending physicians and third-party contracted physicians.

Interest in onshore cells increasing

For US-based healthcare organisations with offshore-domiciled captives, we are seeing interest in establishing an onshore standalone protected cell to augment their offshore captive. Such an arrangement typically simplifies the captive's activities and allows for more creativity in some areas as it establishes a separate, segregated facility that removes regulatory 'tentacles' trailing back to the offshore captive.

About 25 per cent of Marsh's new captive formations are cells, which are used as a cost-effective risk financing vehicle and feature. The benefits of a cell include up to 50 per cent lower operating costs compared to a single-parent captive, a set-up time that can take days instead of months and an established infrastructure of service providers.

In the face of potentially large employee medical losses, medical stop-loss is experiencing growth in captives and cells across most industries, including healthcare. Across all Marsh-managed healthcare captives, medical stop-loss premiums increased by 50 per cent between 2020 and 2022.

Through this coverage, businesses may reduce and stabilise the cost of providing healthcare to their employees over the long-term, enhancing the efficiency of employee benefit financing and delivery. Medical stop-loss has proven to be a cost saver that is relatively simple to establish, easy to manage, and that may not involve taking on a lot of new risk. Cell captives based in the US have seen an increase in medical stop-loss over the last three years.

Some solutions, such as accessing terrorism coverage through the US Terrorism Risk Insurance Act (TRIA), cannot be accomplished through an offshore captive.

US-domiciled captives are obligated to offer terrorism insurance under TRIA. Businesses need to carefully examine their captive structures and TRIA's requirements to confirm compliance and to make strategic use of the programme when addressing terrorism risks. These provisions only apply to primary insurance; reinsurance transactions are excluded.

Among the advantages of using a captive or cell for terrorism risk is the ability to fund coverage for cyber terrorism as well as nuclear, biological, chemical and radioactive (NBCR) property loss events.

"Employee benefits coverage areas include life insurance, group medical insurance, including health, dental, vision and post-retirement medical benefits"

Marsh Captive Solutions

From 2020 through 2022, Marsh clients across all industries formed 370 new captive entities.

Marsh Captive Solutions now manages approximately:W

- *1,900 captives and other entities across 55 domiciles*
- *US$70 billion+ in premium volume*
- *US$120 billion in surplus*
- *Of the total captive premium managed by Marsh*
- *36 per cent property and casualty*
- *30 per cent life (commercial business)*
- *19 per cent employee benefits*
- *15 per cent financial and other lines*

There is also a general liability (GL) component to terrorism risk. For example, if there is an NBCR event near a hospital, whereby patients die, and the hospital system gets sued, the cell could pick up a portion of the GL claims if the event is certified under TRIA as terrorism and the US cell captive or onshore captive wrote a GL-TRIA policy.

Employee benefits continues as a captive growth area

Employers in the healthcare industry and elsewhere are increasingly using captives to finance healthcare and employee benefits risks, gaining greater control over costs and access to data. Employee benefits coverage areas include life insurance, group medical insurance, including health, dental, vision and post-retirement medical benefits.

Disability insurance, such as long-term and short-term disability, voluntary employee benefits, including accident insurance, accidental death and dismemberment, personal accident, critical illness and travel insurance can also be covered.

Other voluntary employee benefits offerings are pet insurance, legal assistance, device warranty protection and identity theft insurance offerings.

Many organisations view voluntary benefits as a ‘feel-good’ type of insurance that provides value to employees, but typically doesn’t cost much. Because of the profitable third-party nature of the premiums, there may exist an opportunity to (re)insure these risks in a US cell, and not in an offshore not-for-profit captive.

Cyber coverage increasingly popular in healthcare captives

With large stores of personal data for patients and employees, and reliance on technology, healthcare organisations are among the top industries targeted by cyber criminals.

The frequency and severity of ransomware attacks has caused cyber insurance pricing to rise sharply for most organisations.

However, these increases have moderated significantly in recent quarters from the highs of 2021.

Owing to increases in pricing, terms and conditions also became less favourable, leading many organisations to explore alternatives to commercial insurance, including using captives.

Captive insurance programmes can protect companies from the financial impact of data breaches, including reputational damage, business interruption coverage and third-party risk for possible damages.

The number of Marsh-managed captives writing cyber coverage increased by 75 per cent between 2020 and 2022.

The growth primarily comes in the form of single-parent captives and cells. During this same period, cyber premiums increased by 57 per cent.

Among Marsh-managed captives, the healthcare industry shows one of the highest use for cyber risk, with 13 per cent of the sector's captives writing the coverage.

ESG considerations rising in healthcare captives

ESG considerations are gaining prominence and experiencing increased scrutiny from investors, employees, regulators and stakeholders.

Captive regulators, including in Bermuda, Dublin and Guernsey, have started to define ESG standards and reporting requirements for captives.

Regulation will be implemented in domiciles at differing rates, with ESG likely to crystallise as an important, ongoing topic for captive owners.

Many healthcare organisations are finding that captive insurance can play a leading role in managing environmental impacts, while offering voluntary benefits to employees through a captive can help address the social side of ESG.

An evolving solution

The healthcare captive insurance landscape is evolving as it grows, with increased interest in non-traditional lines, the use of onshore US cell captives, emerging risks, ESG considerations and other alternative innovative structures.

As healthcare organisations continue to see new challenges, captive insurers will play a crucial role in helping them navigate complex risks such as managing mergers and complying with legal and regulatory requirements.

By embracing captive insurance solutions, healthcare organisations can enhance their risk management practices and ensure a secure future in an ever-changing industry. ■

Michael Serricchio
Managing director, Americas consulting leader
Marsh Captive Solutions

Marsh

Empower Your Healthcare Organization in Minutes with AI-Enabled Risk Financing

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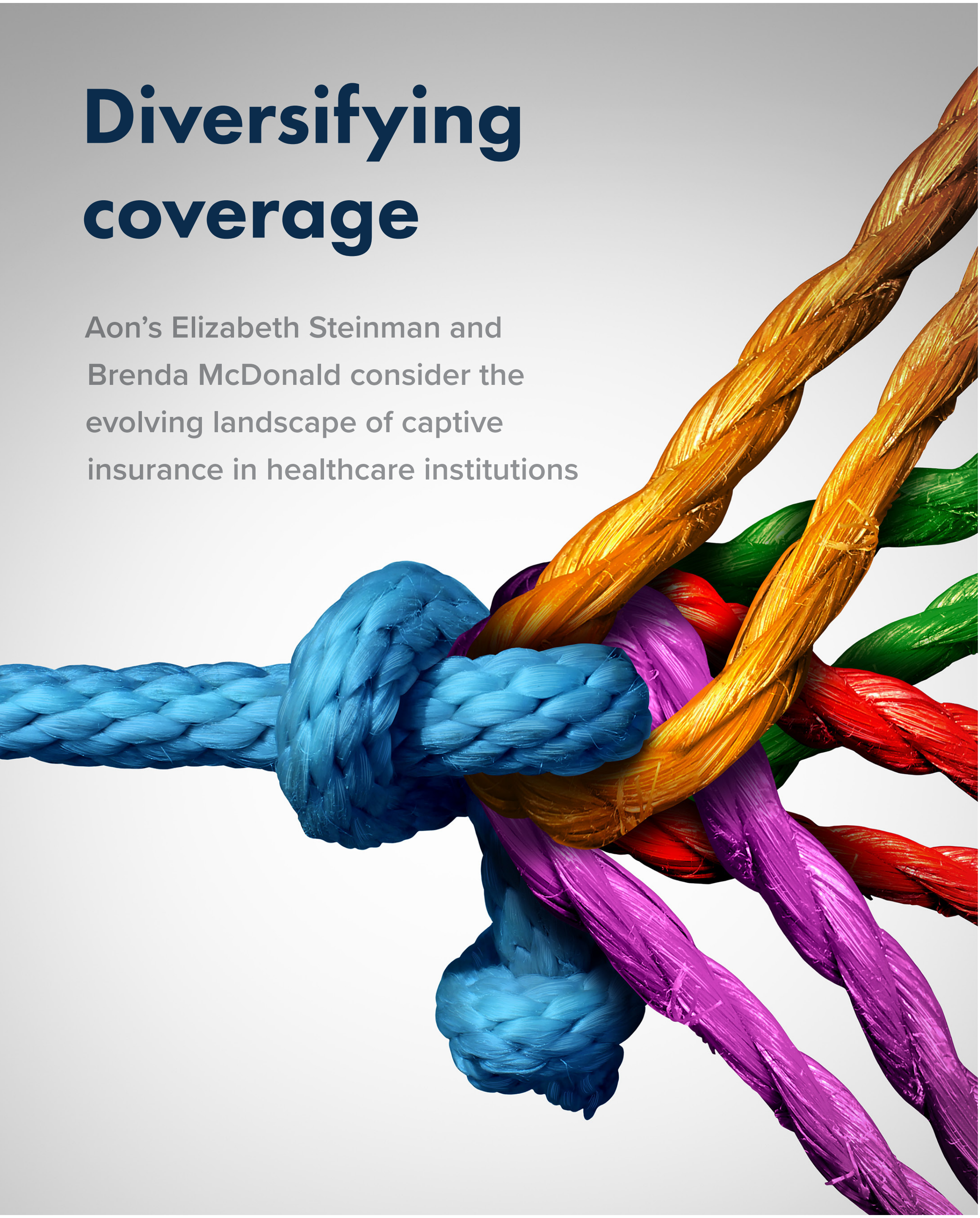


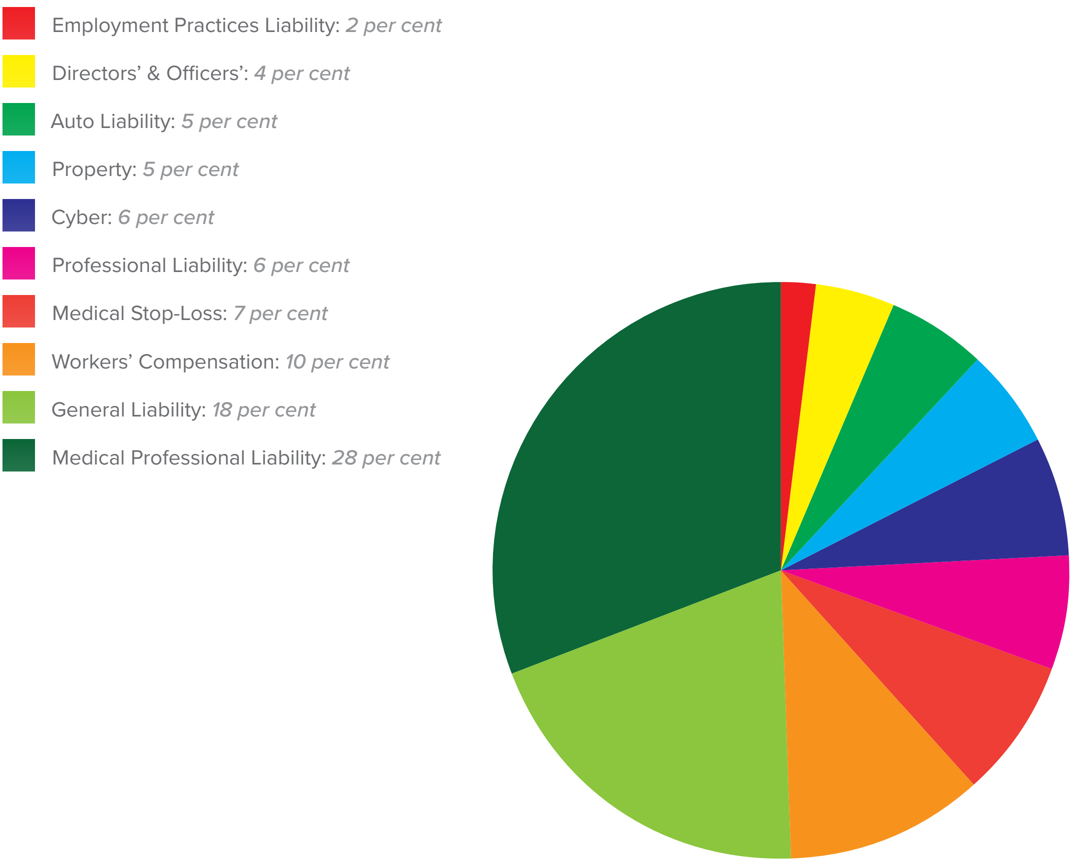
Diversifying coverage

Aon's Elizabeth Steinman and Brenda McDonald consider the evolving landscape of captive insurance in healthcare institutions

In the complex and rapidly evolving world of healthcare, institutions are continually seeking innovative solutions to manage risks and mitigate financial uncertainties. Captive insurance programmes have long been a stalwart in the sector, historically predominantly focusing on providing coverage for medical malpractice.

However, healthcare organisations have not been immune to hard market conditions. These conditions have been conducive to driving decreased capacity, increased deductibles and broadened coverage exclusions across various lines of coverage. The impact has been a noticeable trend toward diversification of the lines of business written in a captive, with healthcare organisations increasingly recognising the benefits of expanding their captive insurance coverage beyond the traditional scope.

The following chart shows the top lines of business written by captives owned by healthcare organisations, according to Aon's 2023 Captive Benchmarking Survey. We expect these numbers to shift over the next few years as healthcare organisations continue to implement innovative solutions beyond medical professional liability coverage for managing their risks — some of which are discussed below.



"As healthcare institutions continue to grow and evolve, the challenges they face increase in tandem"

Changing dynamics of healthcare risk

The healthcare landscape is multifaceted, encompassing a myriad of risks beyond medical malpractice. As healthcare institutions continue to grow and evolve, the challenges they face increase in tandem. From cybersecurity threats to regulatory changes and supply chain disruptions, the need for comprehensive risk management has never been more crucial. Additionally, talent turnover and staff burnout impacts their exposure to risk due to increased likelihood of errors, leading to otherwise avoidable lawsuits.

Recognising the need for a more holistic approach, healthcare organisations are exploring new avenues within their captive insurance programmes. By expanding coverage to address a broader spectrum of risks, these institutions are better positioned to navigate the changing healthcare environment.

Key areas of expansion:

Property

With the hard property market, healthcare organisations have turned to their captives to take on more of this risk. As with most industries currently, the healthcare industry is experiencing increases in property premium rates. In some cases, they are forced to take on higher deductibles as they are finding less capacity available in the market.

This has subsequently prompted organisations to take on more of this risk in a new or existing captive as one risk financing solution.

Cybersecurity and data breach coverage

The hard cyber insurance market in 2020 and 2021 resulted in many healthcare organisations turning to their captives to fund for deductibles, which might have been raised. Captives were also used for layers of their programme where premiums had drastically increased in order to augment their overall cyber programme at a more reasonable cost.

The increasing reliance on technology in all aspects of care delivery including the digitisation of healthcare records has exposed healthcare institutions to unprecedented cybersecurity risks. Responding to increasing digitisation in the industry, captive insurance programmes are incorporating coverage for data breaches, ransomware attacks and other cyber threats. This has assisted healthcare organisations in being financially prepared to deal with a security incident. The captive coverage also enables the institutions to quickly access cash in the case of ransomware attacks. The potential of shutting the hospital or institution down seems to be the greatest concern prevalent in the current environment.

Medical stop-loss

Medical stop-loss remains a popular captive line of business for those organisations that are self-insured for their employee health plan. Many have found cost savings by insuring a portion or all of this risk with their captive.

Regulatory compliance and legal defence

As the healthcare industry is subject to a myriad of regulations and compliance requirements, captive insurance programmes are extending their coverage to include legal defence and regulatory compliance costs. This proactive approach allows healthcare institutions to address legal challenges promptly and efficiently, minimising the financial impact of legal proceedings and potential regulatory penalties.

Supply chain disruptions

The Covid-19 pandemic underscored the vulnerabilities in global supply chains, affecting the healthcare sector's ability to access essential medical supplies. Captive insurance programmes are now incorporating coverage for supply chain disruptions, ensuring that healthcare organisations can respond and rebound from disruptions to the continuity of care, even in the face of unforeseen supply chain challenges.

Benefits of diversification:

Customised risk management

Diversifying captive insurance coverage allows healthcare institutions to tailor their risk management strategies to their specific needs. This customised approach ensures that the institution is adequately protected against a broad range of risks, fostering resilience in the face of uncertainty.

Cost, control and stability

Healthcare organisations can achieve greater cost control and stability by spreading risk across various coverage areas.

Diversification helps mitigate the impact of unexpected events, preventing financial strain and ensuring that resources are allocated efficiently.

Enhanced strategic planning

A diversified captive insurance programme gives healthcare institutions a more comprehensive understanding of their risk landscape.

This knowledge enhances strategic planning by allowing organisations to address emerging risks and capitalise on new opportunities proactively.

"A diversified captive insurance programme gives healthcare institutions a more comprehensive understanding of their risk landscape"

Elizabeth Steinman
Managing director for fisk finance and captive consulting for the Americas
Aon

"Demonstrating a commitment to comprehensive risk management through a diversified captive insurance programme enhances stakeholder confidence"

Improved stakeholder confidence

Demonstrating a commitment to comprehensive risk management through a diversified captive insurance programme enhances stakeholder confidence. Whether it's patients, investors or regulatory bodies, knowing that an institution has robust coverage inspires trust and credibility.

Challenges and considerations

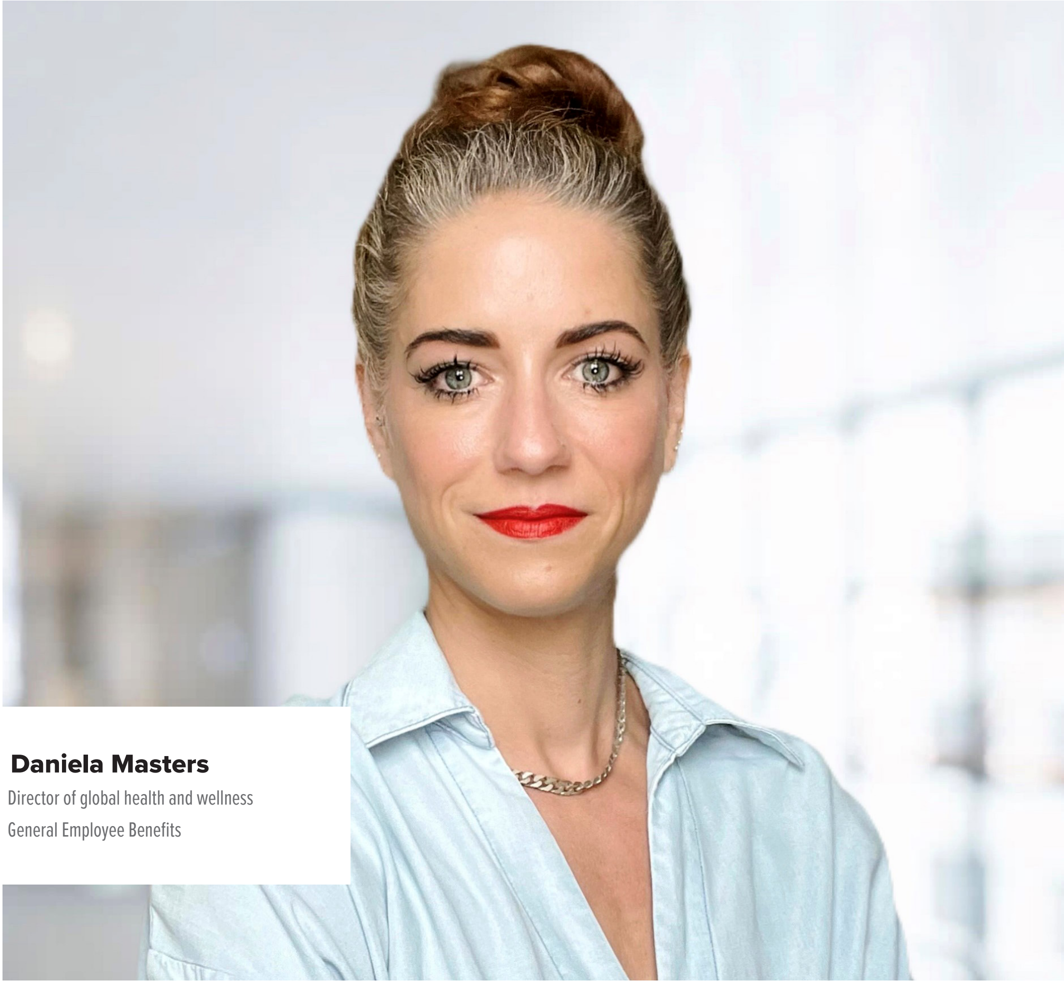
There are some potential downsides to captives that healthcare facilities need to consider. For example, forming a captive can require significant time and resources as healthcare facilities must establish the legal and financial structures required to operate a captive. Additionally, captives are subject to regulatory oversight, which can add additional complexity and cost to their operations. Despite these challenges, healthcare captives are on the rise because of their numerous benefits to managing their total cost of risk.

Conclusion

As the healthcare sector continues to evolve, a comprehensive and flexible approach to captive insurance coverage will be integral to healthcare organisations' long-term success and resilience. Embracing this evolution will enhance risk management and position healthcare institutions as leaders in navigating the complexities of the modern healthcare landscape. ■

"Embracing the evolution [of healthcare captives] will enhance risk management and positions institutions as leaders in navigating the complexities of the modern healthcare landscape"

Brenda McDonald
Chief risk advisor
Aon National Healthcare Practice



Daniela Masters
Director of global health and wellness
General Employee Benefits

Spending trends and insurance strategies

Daniela Masters shares Generali Employee Benefits' observations of captives in the global healthcare industry

Can you comment on medical claims spending trends observed over the past few years, and how this is impacting healthcare captives?

Over the past few years, Generali Employee Benefits has observed an overall increase in musculoskeletal claims, respiratory illness, infectious diseases and cancer claims. These are seen in addition to diagnoses that are often comorbid with mental health conditions.

Lack of access to over-stressed and underfunded public health care systems may have delayed screenings and diagnoses. This could have contributed to the need for more costly healthcare interventions, while also increasing utilisation of private sector health plans.

Organisations are managing this volatility in claiming patterns and associated costs and their captives are weighing the integration of digital innovation within their health offerings such as telehealth and second opinion services. At the same time, they are also considering new DEI benefits that support a changing workforce and shifting cultural landscape.

The short- and long-term financial impacts of these issues is a challenge for employee benefits (EB) risk managers, as they work to balance employee needs and healthcare costs as an increasing share of overall compensation.

As we continue through this period of global geopolitical and macroeconomic uncertainty, benefits managers will need to rely heavily on data in order to develop more accurate claims spending insights, and tailored plan designs that fit market needs while managing global health risk.

How can captives use medical claims data to help guide risk management decision making?

Data, depth and quality are essential to accurate forecasting and risk management. It's important to consider not only group-specific medical claims data, but the context in which it exists, for example medical trends and the general inflationary environment.

Group-specific medical claims data is, of course, directly impacted by the demographics of the given group, as well as plan design, provider network access or structure and negotiated discounts, and pre-authorisation requirements.

Medical trend has a further impact on plan pricing as a result of market-specific factors related to the cost of healthcare.

The factors depend on the given location, regulatory controls, access to and cost of new technology and pharmaceuticals, and local medical practice patterns.

General inflation has an additional impact, driving up health system input costs, such as staffing and supplies, which directly impacts the cost of the actual treatment itself.

Monitoring and analysing these collective spending and inflationary trends by market can help captives structure plans and pricing schemes that anticipate and respond to all factors driving the cost of healthcare.

Data must form the backbone of any healthcare captive strategy, since data fundamentally guides risk management and helps to set realistic spending and pricing expectations on an annual basis.

Has the composition of the workforce changed over time? How can global employers respond to these changes through new benefits, programmes and services?

We are seeing some changes in terms of the types of medical care consumed, top diagnoses, the use of technology to access an increasing range of healthcare services and the expectation for coverage of DEI benefits.

- **Types of medical services and diagnoses:** Musculoskeletal claims are still an area of concern, as well as respiratory conditions, infectious diseases and cancer claims. Additional diagnostic categories where we have observed spending increases over time include maternity, digestive illnesses and treatments related to diagnoses and investigations.

- **Remote care delivery:** Many employers introduced digital health services during and after the pandemic years. These include telemedicine, remote second medical opinion, health concierge services and remote musculoskeletal (MSK) support. However, there is some concern that simplified access to care, particularly specialist care, may lead to unnecessary utilisation of services.Employers are weighing the cost-benefit of offering digital health access. They are doing this by monitoring spending patterns among their membership to better understand whether remote care actually creates plan savings, or just drives up care costs unnecessarily.

- **DEI:** An increasing share of global employers are recognising the value of DEI initiatives in building and supporting a diverse, fair and inclusive working environment. In the context of healthcare, this can mean introducing programmes, services and benefits that support but are not limited to age, gender, sexual orientation and cultural diversity. As global employers consider introducing DEI benefits for their populations across the world, it's also important that they consider the local cultural context into which such initiatives will be introduced. This is key as they should look to rely upon local insight and expertise to select and implement appropriate programmes. In addition, while a captive provides an important vehicle through which employers can cover DEI benefits, these changes need to be considered in terms of cost and risk, as well as the local regulatory environment. Close cooperation between HR, the EB team and the captive is essential.

Responding to the changing workforce, global employers are designing programmes that meet their unique needs within the limitations of a given market's regulatory environment.

Can you comment on strategies for introducing global health programmes and associated wellbeing initiatives to manage risk?

We routinely work with global HR and healthcare captive teams to apply medical claims data to support their decision making around local and global health initiatives. We encourage them to use data to inform their wellbeing strategy.

We take a broad view when discussing data findings, focusing not only on plan design but also diagnostic trends to gain a clearer view on all cost drivers.

After reviewing data insights, the captive and EB teams may choose to work with the local insurer to change the plan design itself — including a change in the scope of cover, steerage to preferred providers and changes in the pre-authorisation process — and introduce specialised health initiatives to address emerging health needs across the population. Observations may also yield information on unaddressed population health issues for conditions not normally covered under the local policy, which may impact other covered and comorbid conditions.

Mental health is one of the key areas of concern for many organisations. Therefore, we encourage a focus on psychological risk management and assessment to determine if there are any underlying mental health issues driving medical and disability costs overall.

This could result in the introduction of supplemental employee assistance programmes (EAP), new or enhanced mental health benefits and other education initiatives which can be introduced through our local partners. ■

Take Control of Your Company's Healthcare Costs

As healthcare expenses continue to rise, companies have increasingly looked to self-funding and Medical Stop Loss group captives to control costs. But when it comes to captives, **one size doesn't fit all.** That's why Captive Resources supports several different captive programs to meet the unique needs of employers.

Program Control: Group captives allow members to take control of their insurance programs and self-fund in a stable environment as part of a group of best-in class, engaged employers.

Cost Containment: Captives afford members the necessary transparency to implement cost containment solutions that fit the needs of individual companies.

Profit Potential: Members can further bend the trend on total costs with the ability to earn dividends for better-than-projected loss performance.

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Mike Van Ham
Senior vice president
Captive Resources

Data is key

Mike Van Ham, senior vice president at Captive Resources, provides a comprehensive overview of the company's health risk management offering

Mike, tell us about your role at Captive Resources and your work with members of the medical stop-loss group captives.

I lead the health risk management team at Captive Resources. In this capacity, the team and I bring resources, tools, data and information to the captive members to help them identify and manage the health risks within their populations. We also provide the specific conditions and costs drivers impacting their plan spend and trend. While identifying key cost drivers is critically important, the cumulative actions to manage those risks matter. That is why our team supports ongoing networking and sharing among the members, with a significant focus on bringing forth solutions to help members manage risk and mitigate their cost drivers, while also helping to improve their populations' health and outcomes.

What type of risk management initiatives do you provide to members?

It goes without saying that the healthcare system is highly complex, so there's no shortage of areas to focus on. That said, we see from plan data that the key cost drivers within the captive and among individual member groups are concentrated in a few areas that help us focus our efforts.

Specialty pharmacy is a priority for employers as these drugs are very expensive. We are seeing increased utilisation as well as a pipeline to market that isn't slowing. A recent example of this is the significant surge in the use of GLP-1 drugs for weight loss, as clinical trials have demonstrated their efficacy.

Medications such as Ozempic were originally developed to manage diabetes; now they are increasingly prescribed as a promising option for obesity management due to their appetite-suppressing and metabolic effects. This class of specialty drugs is a perfect example of how managing pharmacy expenses requires working with the right partners to control prescription drug costs.

This can be achieved through strategies such as formulary management, step therapy, prior authorisation, and site of care delivery to ensure employees have access to cost-effective medications.

Mitigating healthcare spending for conditions like cancer, diabetes, and musculoskeletal issues is a complex challenge — these conditions are consistently in the top five spend categories for employers today.

Implementing solutions that are customised to your plan participant population's specific needs, such as condition management programs, provider network optimisation strategies, patient engagement, and education and pharma strategies, is essential to manage these expenses.

It's crucial to address multifaceted barriers to healthcare, which often hinder patients from accessing necessary medical services. It not only improves health outcomes by ensuring timely and appropriate access to services, but also helps to manage costs by preventing the escalation of untreated conditions and reducing the reliance on more expensive emergency interventions.

Financial obstacles, such as high deductibles and out-of-pocket costs, can prevent individuals from seeking timely care. Geographical disparities, insufficient healthcare infrastructure in rural areas and a shortage of healthcare professionals can also limit access to healthcare, creating inequities in the availability of medical services.

Additionally, administrative burdens, including complex billing systems and prior authorisations, can impede timely and efficient care delivery, adding to the array of challenges patients face in navigating the healthcare system.

We aim to promote strategies that encourage patients to use the healthcare system appropriately, have an ongoing primary care physician relationship and seek regular preventive services and screenings that all positively impact health risk and patient outcomes.

What are the benefits to the members and the group captives of these initiatives?

Health risk identification initiatives that are implemented across the captive help the individual member-companies save on plan expenses and improve their populations' health and experience, benefitting the captive. Reducing the risk level and exposure across all members ultimately leads to less risk for both the captive and reinsurance layers. Subsequently, this will be reflected in the go-forward premium levels and overall programme spend across the captive.

Within the captive, members are focused on sharing and learning from each another's best practices. They have a vested interest to share how they've addressed similar challenges within their individual plans and populations and their successes. It becomes a community focused on cost containment, where a rising tide lifts all boats.

You mentioned plan data as how you identify your key focus areas. Could you tell us more about how your team and your captive members use data to help manage their programmes?

A few essential items we haven't touched on yet are control and transparency. In a group captive environment, members have complete control and ownership of their medical claims data, allowing for greater transparency, customised risk management strategies and the ability to tailor solutions to their organisation's and population's specific needs. Analysing claims data is critical in making informed decisions about plan design, provider networks, wellness initiatives and beyond. Members embrace this ownership and control and use the data to track and measure the effectiveness of their cost containment efforts and adjust course as trends evolve.

At Captive Resources, we further support this control by embedding data analytics partners within the captive programmes. This ensures members have robust tools and resources to implement when analysing their data and making informed planning decisions. We then use this data at the aggregate level to identify macro trends across the captive to help us focus our risk management efforts. Gaining access to more informed data is continually evolving and expanding. With the continued implementation of provisions from the Consolidated Appropriations Act, we will see further price transparency and more access to data through eliminating contractual gag clauses. These steps will further enable employers and captive members to take greater control over their data and gain greater insights as a result.

How much more potential is there to further health risk management effectiveness, and what role does advancement in technology and data analytics have?

There is potential to further improve health risk management effectiveness; advancements in technology and data analytics play a pivotal role in unlocking this potential. With the increasing availability of health-related data, including electronic health records, wearable devices, and genetic information, there are vast opportunities to enhance risk assessment, early detection, and personalised interventions.

Advanced data analytics can identify trends, high-risk individuals and specific risk factors, enabling more targeted and proactive health risk management strategies. Moreover, technology such as telehealth, remote monitoring, and artificial intelligence can facilitate real-time monitoring and more precise interventions, transforming how we manage and mitigate health risks. We have the potential to move past the days of trial and error and take targeted, personalised, and practical actions from the outset, eliminating the significant waste we see in the system today. As technology continues to evolve, the potential for more effective health risk management will grow, ultimately leading to improved health outcomes and, we hope, cost savings for individuals and plan sponsors. ■

Medical stop-loss group captive success story: *cost containment in action*

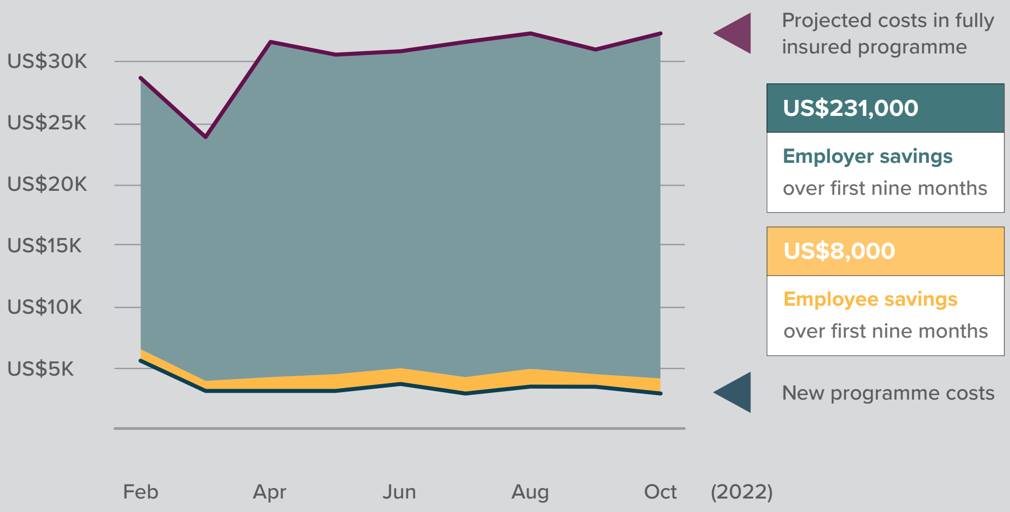
As Van Ham articulates, the ability to identify and address cost drivers is one of the core benefits of joining a medical stop-loss group captive. To illustrate this point, Captive Resources shared a case study about a company that faced rising premiums for its 75-life medical plan. Joining a medical stop-loss group captive opened several resources to help the company address swelling costs, including: increased transparency into claims data, enabling the member-company to identify several costly prescriptions driving a disproportionate amount of expenses, access to workshops and member networking which afforded the member-company the opportunity to learn about a pharmacy solution that helped it drastically control prescription spend and enhanced control of its insurance programme, allowing the company to identify a savings opportunity and move to a solution otherwise not available to them to address the challenge.

In the first nine months after transitioning to the new solution, the member-company experienced significant savings, including US$231,000 in savings for the company, $340 per employee per month, $8,000 in savings for the company's employees and 20 per cent in total programme savings compared to a fully insured renewal.

It's important to note that these savings are exclusive to this member's pharmacy or prescription medicine (Rx) expenses and are not representative or indicative of savings other groups may achieve.

As Van Ham illustrates above, medical stop-loss group captives present many opportunities to reduce overall healthcare spend and likely several more savings opportunities exist elsewhere in members' programmes.

Pharmacy benefit management programme savings by month



Cayman makes waves

Kevin Poole describes how Cayman is a leading and attractive domicile for healthcare captives

Cayman captives

The genesis of Cayman as a captive domicile has been well documented since the first medical professional liability (MPL) captive was formed by Harvard medical school in 1976. Other formations followed soon after, primarily driven by the crisis in the MPL market due to an unexpected increase in liability claims and a corresponding increase in commercial liability premiums.

Many in the industry were affected by the increasing number of claims and were looking for ways to mitigate these concerns.

The first wave of captives were formed by hospital systems, helped by changes in Medicare cost reimbursement rules that permitted the use of captives, with Cayman being the preferred domicile.

By the late 1980s Cayman was home to more than 100 captives, the majority being healthcare related. This prompted the first Cayman captive conference in 1988, which was marketed as a captive healthcare conference.

A second wave

A further hard market arrived in the late 1990s and early 2000s, seeing Cayman's captive formations peak in 2002 with 97 new formations.

This was followed by 83 formations in 2003 and a further 75 in 2004, largely driven by healthcare captives that included physician groups, long-term care facilities, nursing homes and assisted living facilities.

Recent developments

The 2010 Patient Protection and Affordable Care Act (ACA or Obamacare), which sought to provide universal healthcare coverage while reducing healthcare expenditures, resulted in a dramatic increase in M&A activity in the healthcare space.

The lowering of costs fuelled consolidation at the hospital level, leading captives to merge. Larger, and more sophisticated, structures were created as risk managers looked to integrated risk programmes that included additional lines of coverage such as workers' compensation, employee benefit programmes and cyber risk.

This desire to increase efficiencies most acutely affected smaller, more regional hospitals and forced them to form working relationships or strategic partnerships with larger hospital systems. The knock-on effect created higher limits and expanded lines of coverage for many captive programmes.

Why Cayman?

One of the attractions of the jurisdiction is the unique way non-employed physician programmes have been handled. The 2010 Insurance Act included a definition of "related business", meaning business which originated from the insurer's members or the members of any group with which it is related through common ownership or a common risk management plan.

This became very important to many hospitals, particularly non-profits, who could now provide coverage to their non-employed physicians without the programme being considered third-party risk like many other domiciles.

The growth of cell captives and groups helped many healthcare captives. The use of cells could help segregate potential affiliated programmes or non-employed physician programmes, while groups helped many hospital systems work together for more efficient purchasing of reinsurance, largely driven by cost concerns.

What does Cayman have to offer today?

At the end of Q3 2023, Cayman was home to 226, or 34 per cent, of captives writing medical or professional liability risks. These include hospital professional and physician liability, generating premiums in excess of US$4 billion and assets of US$18 billion. Many healthcare captives have been domiciled in Cayman for over 30 years and have provided their owners with a real risk management tool. This has helped them to drive down costs, improve risk management and ultimately provide resources to help improve patient safety and claims costs.

Given its longevity as a healthcare captive domicile, Cayman has an abundance of quality service providers familiar with the challenges of the healthcare industry. These service providers cover every aspect relating to the needs of a captive, such as insurance managers, auditors, actuaries, lawyers and investment managers.

The Cayman Islands Monetary Authority (CIMA) continues to provide a stable and risk-based approach to regulation, which is appreciated by many healthcare executives who are familiar with heightened regulations governing the onshore industry. This is reflected in the experiences of many attendees at CIMA captive prudential meetings who leave reassured by the regulator's open and proactive approach in supporting the success of their captives. The authority remains actively engaged and demonstrates a keen understanding of the challenges a captive owner may face.

Looking ahead

Looking to the future, healthcare captives are again coming to the fore by helping their parent companies overcome a variety of industry obstacles including increasing claims verdicts, social inflation, new technologies, virtual practices and telemedicine, hard market pricing and reinsurance capacity restrictions.

There are also social challenges: active shooter concerns, sexual harassment and discrimination, cyber-related concerns such as ransomware and cyber breaches and the changing political landscape that has impacted women's health issues following the 2022 Supreme Court decision to overturn Roe v Wade.

How can establishing a captive in Cayman help? The increasing severity and volume of claims and settlements in the traditional US healthcare markets, as well as restrictions in capacity and increases in pricing, will continue to encourage companies to look at alternatives such as self-insurance structures.

Captives allow for flexibility in rates and will lead many to continue to review their existing captive to take on more risk and lines of coverage.

The recent Cayman Captive Forum (CCF) included healthcare presentations covering the latest challenges and trends being addressed by Cayman captives.

The commitment and support of both the Cayman Government and the regulator to the sector is unwavering, and this partnership with industry is expected to continue to pay dividends as Cayman looks forward.

The expansion of the Cayman reinsurance market is the latest major trend, as Cayman aims to work with the National Association of Insurance Commissioners (NAIC) over the coming year for NAIC equivalency to further boost this sector's growth.

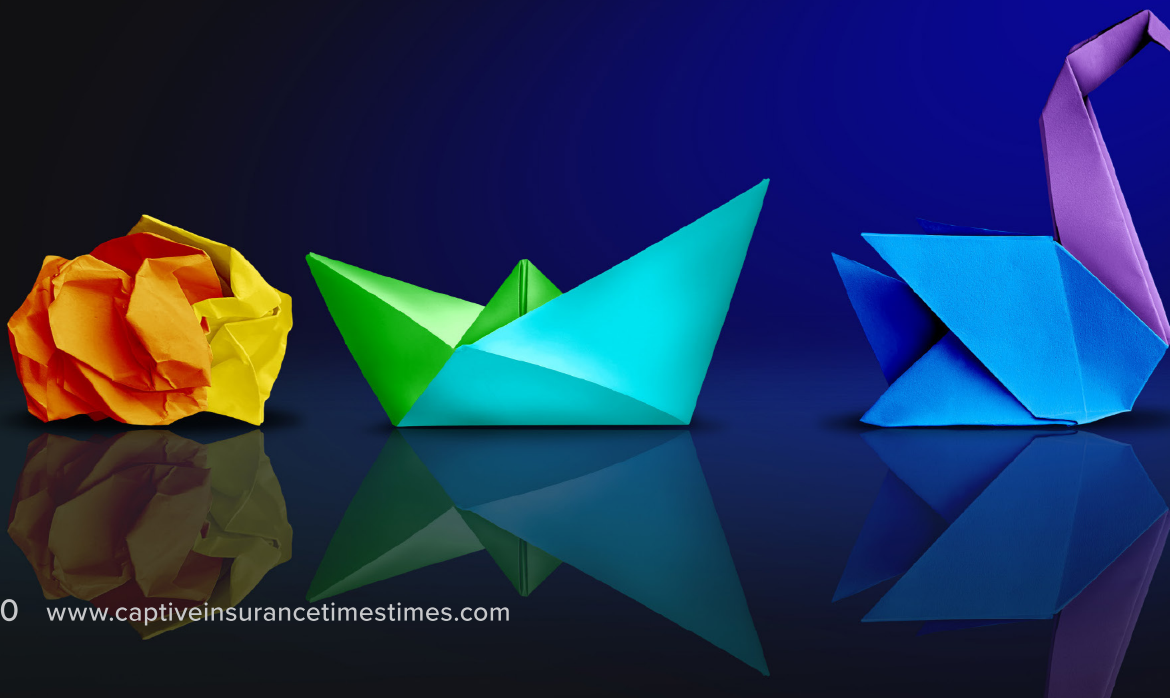
Given Cayman's reputation, robust legal and regulatory framework and proportional regulatory regime, we may well see healthcare reinsurers make Cayman home.

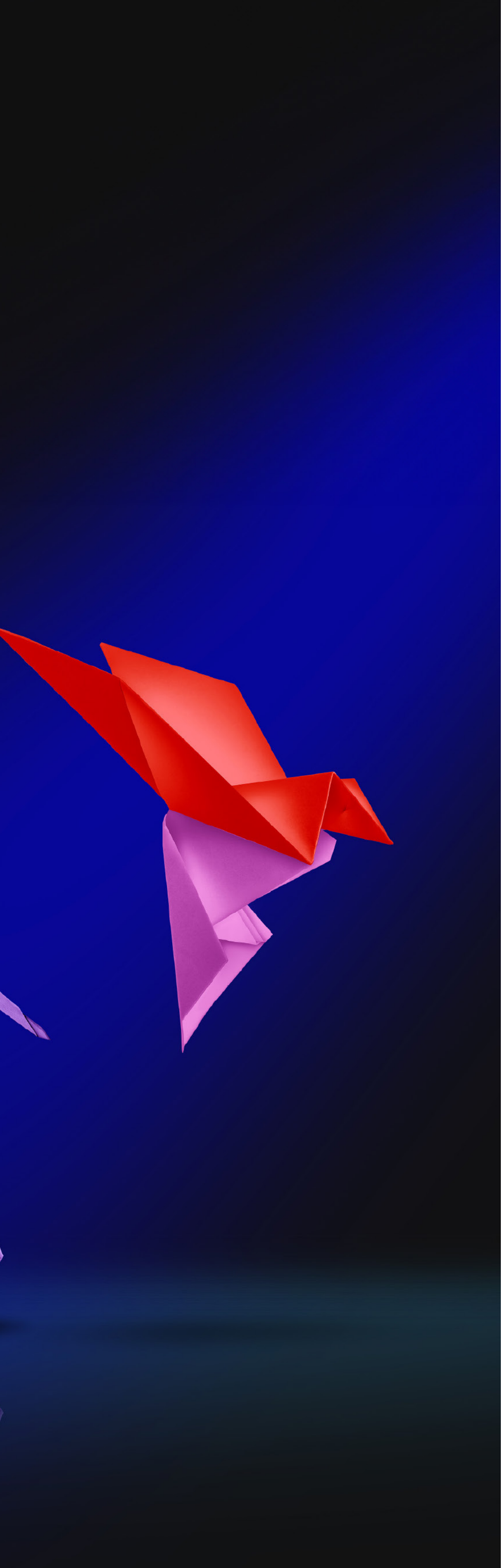
Healthcare captives will continue to be a major component of the Cayman Islands insurance industry, with Cayman remaining the domicile of choice for healthcare captives for many years to come. ■

Kevin Poole
General manager
Insurance Managers Association of Cayman

An evolution of medical stop-loss

Evolution Risk Partners' CEO and founder George Lemmon speaks to John Savage about the growth of the firm in the medical stop-loss space





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Evolution Risk Partners (ERP) aims to 'redefine partnership' in the medical stop-loss area. Could you explain what this means and how your partnership approach sets you apart?

Stop-loss, similar to other insurance products, gets commoditised. Everything is boiled down on a spreadsheet and subsequently a service element gets lost. Stop-loss is a very important part of the medical programme for the group, but it also can be an afterthought for many brokers and clients because it is a mature market with many competitors to easily choose from.

With the partnership approach, we aim to provide the level of service and an understanding of the client's needs beyond just what's on a spreadsheet. We ask what they are looking for, where they are coming from their experience with their prior carriers and why they are looking to move. We partner with the producer and want to understand their block of business and how they're driving value to their clients.

We position our approach to match their needs and what they're looking for from the market. They can work with one of 20 different carriers, but they'll choose to work with us because of our experience and expertise.

You have more than 24 years of experience in this industry. What motivated you to launch ERP? Could you highlight the key problems you wanted to solve?

I've been part of remarkable growth stories at two major insurance companies, witnessing their evolution first-hand as they expanded. This experience led us to establish ERP, recognising a gap in the market and the need for a service-oriented approach, in partnership.

While it's true that most carriers do a fine job and pay claims, we believed there was an opportunity to redefine the service aspect of stop-loss coverage.

"Our vision was to offer a distinct approach to risk management by operating independently from direct writing stop-loss arrangements"

Our vision was to offer a distinct approach to risk management by operating independently from direct writing stop-loss arrangements. We chose to embrace a more creative angle, partnering with individual brokers to address their unique needs and business challenges, rather than operating within the constraints of a large public insurance company.

Our agility as a smaller entity allows us to respond swiftly and view challenges through a fresh lens, unrestrained by the need to cater to every market segment. Instead, we focus on providing tailored, innovative solutions. We prefer to work with those who appreciate our unique approach and see the benefits it offers.

How does the extensive experience of your leadership translate to better serving ERP clients compared to other MGUs?

I managed distribution and service for a large insurance company, overseeing a team of close to 100 sales and service representatives. Problems tend to flow up in organisations so many issues were channelled through to me, granting me the experience of seeing potential pitfalls and contract complexities with large and diverse blocks of business.

This experience was crucial, not just for building relationships, but also for pre-emptively addressing contractual issues with carriers.

We review contracts thoroughly to mitigate potential problems when engaging with clients at implementation to ensure a smooth reimbursement process when claim time arrives.

My colleagues in underwriting and claims share this perspective, and our collective years of experience allow us to navigate client engagements seamlessly, avoiding errors and issues. By consulting upfront, as opposed to reacting to problems as they arise, we've established a strong reputation in the market.

ERP partners with A-rated carriers Pan-American Life, Everest Re, and Companion Life. How does leveraging their financial strength and capabilities benefit your clients?

In our competition with large direct writers, we carefully select carrier partners with a similar financial stability structure as the direct writers. Working exclusively with top-tier carriers ensures the delivery of superior and flexible solutions to the market.

Considering the complexities inherent to employer medical programmes, worrying about the financial stability of the insurers should be an unnecessary concern. This, for us, is a basic requirement.

Our reputation and expertise have enabled us to attract A-rated carriers seeking to grow strategically in the medical stop-loss space. While they are dedicated to this sector, they lack their own distribution, claims and underwriting teams.

Consequently, they rely on us for these services to enable them to enter and thrive in the rapidly growing US market without significant capital investment. Leveraging our experience, they can seamlessly integrate and expand within this competitive landscape.

What are some of the biggest challenges you see industry-wide when managing healthcare costs and risks? How is ERP positioned to address these challenges?

The most significant change in our market is the emergence and proliferation of specialty drugs in the US. This presents a substantial challenge, not only to self-funded employers but also to the majority of employers providing medical coverage nationwide. Therefore, it's crucial for us to remain informed about all drugs in development, with more than 40 expected to be approved by the FDA in the next year or two. Some of these drugs come with million-dollar price tags, raising questions for employers: will they cover these drugs and at what level? Could covering them jeopardise the plan's financial stability, especially considering the high costs involved? It is undoubtedly a major concern for us.

To address this challenge, we stay closely connected with claims administrators and TPAs to understand market trends and anticipate future needs. We continuously review our contracts to ensure they adequately cover these drugs if the plan chooses to include them. Although we don't exclude coverage for these drugs, we seek out leading providers offering carved-out solutions. Collaborating with producers that have successfully implemented such programmes with their clients allows us to offer consistent renewal experiences and sustain self-funded arrangements, even in the face of these costly drugs.

Beyond traditional stop-loss, you also cater solutions to alternative risk platforms such as captives and level-funded products. What has driven employer demand in these areas recently?

Brokers and consultants are encountering a challenge due to the new fiduciary regulations. Are they truly acting as fiduciaries of the employer's plan if they remain fully insured yet cannot clearly explain where the allocated funds are directed? Often, they lack full transparency into the negotiated contracts with various facilities and don't consistently receive claims experience data. As a consequence, transparency becomes a significant concern.

Encouraging groups to transition from a fully insured framework to a self-funded one becomes imperative. With self-funding, they gain visibility into their claims experience and can implement tailored solutions for specific high-utilisation areas, such as specialty RX or mental health concerns. Without this information, HR professionals, CEOs and chief financial officers are left uncertain about where their funds are allocated and whether their plans truly meet their needs.

Many brokers are actively steering their clients towards self-funding alongside reputable stop-loss carriers. This is to attain the transparency necessary for informed decision-making and implement cost-saving programmes effectively. Approaches like level-funded programmes are gaining traction. These resemble fully-insured plans but offer self-insured benefits or captives, helping to mitigate risks when transitioning from fully insured to self-funded programmes. By pooling risks with similar groups, the uncertainty associated with moving from a fully-insured to a self-funded model can be alleviated, enabling a smoother transition and a more balanced risk distribution.

What motivated ERP to create a captive programme to complement the traditional stop-loss offerings?

Captives in the healthcare space have been around for more than 10 years, and the programme has recently regained traction due to the growing demand for transparency in the market.

A captive serves as a tool to facilitate groups moving in that direction. The appeal of working with an off-the-shelf captive solution is evident, with several entities rolling it out successfully in the past five years or more and raising market awareness.

"While similar approaches exist, we believe our ability to offer both traditional level-funded and pooled solutions sets us apart by providing a comprehensive offering for brokers and consultants"

The industry is still in the early stages, where individuals with experience in captives on the property and casualty (P&C) side are seeking similar solutions for health coverage.

They may not have been aware of available options that don't solely transfer risk back to the group, but instead allow for risk-sharing within the captive structure.

Not all needs are being met in the market. By collaborating with Belinda Fortman, our captive manager, and the wider ERP team, we have developed a solution to tackle the challenges encountered when transitioning from fully-insured to self-funded arrangements. Larger groups and those already self-funded can leverage the cost management programmes we've negotiated and implemented into our captives.

This approach represents another facet of pooled risk management within a captive structure that we're eager to introduce to the market.

While similar approaches exist, we believe our ability to offer both traditional level-funded and pooled solutions sets us apart by providing a comprehensive offering for brokers and consultants.

Could you identify the factors that differentiate ERP's captive programme from others in the market, and pinpoint the company's key value proposition?

The in-house ability for us to consult on the development of a captive programme for a producer or group, either as a cell or a single-parent captive structure that's unique to the market as an MGU. We can consult with a group throughout the process, providing decades of experience in setting up and managing a captive structure. Additionally, we can underwrite and provide a risk framework for that structure as well. While many others can provide solutions, some outsourced and some in-house, we view this as a differentiating point. We offer a one-stop-shop for those looking to make that transition, and can also provide underwriting services for captives already in operation.

A key differentiator for us is our ability to work with someone who says, "Hey, I've got an idea I want to try", or "I want to combine my single-parent P&C captive with my health plan. How do I do that?". We have the in-house expertise to consult with Belinda and leverage her expertise to assist those individuals. While many others in the market can handle underwriting or captive management separately, we believe there are very few that can offer all of the above.

What new cost containment measures or trends are you seeing in the healthcare industry? How does ERP's captive programme support them?

Getting in front of claims before they get processed through the clearing houses is key. Working with a limited number of TPAs, we're able to halt the claims auto-adjudication process and implement various cost containment solutions. Whether they're value-based care, reference-based pricing, single-issue contracting or a narrow network, it's about our claims team collaborating with the TPA.

Working with hundreds of employers on the traditional side and applying that to the individual or groups inside the captive is crucial. There's no one-stop solution here. It's about having a portfolio of solutions for the instances that arise, whether they're regional, involving a children's hospital, or a tertiary care facility. Each situation requires a different approach. The experience we bring to the captives, due to our extensive experience on the traditional side, will be very advantageous for these groups. They may encounter issues that we've seen numerous times before. While they may not know how to proceed, we can leverage our nationwide experience and universal agreements, applying them back into the captive setting.

Can you provide examples of unique captive programmes or services you've created to empower employer clients?

One programme that stands out is the Synchro captive programme, a unique initiative we've developed focusing on cost containment while addressing challenges in customer service. This captive follows either the value-based pricing model or the risk reference-based pricing model. Historically, this model has proven challenging for both employers and employees due to inadequate communication on how best to utilise the programme. Balance billing issues have also contributed to confusion, along with confusion at the providers office, resulting in hesitancy to adopt this approach. To mitigate these challenges, we've partnered with experts specialising in managing such programmes and improving communication with employers, employees and providers to achieve optimal utilisation. Additionally, we take a proactive approach by engaging individual employees in advance to help ensure their preferred providers are in their plan. By initiating discussions beforehand and arranging agreements with preferred providers where possible, we minimise disruption in care and maximise satisfaction with plan options while also managing healthcare costs for employers and employees.

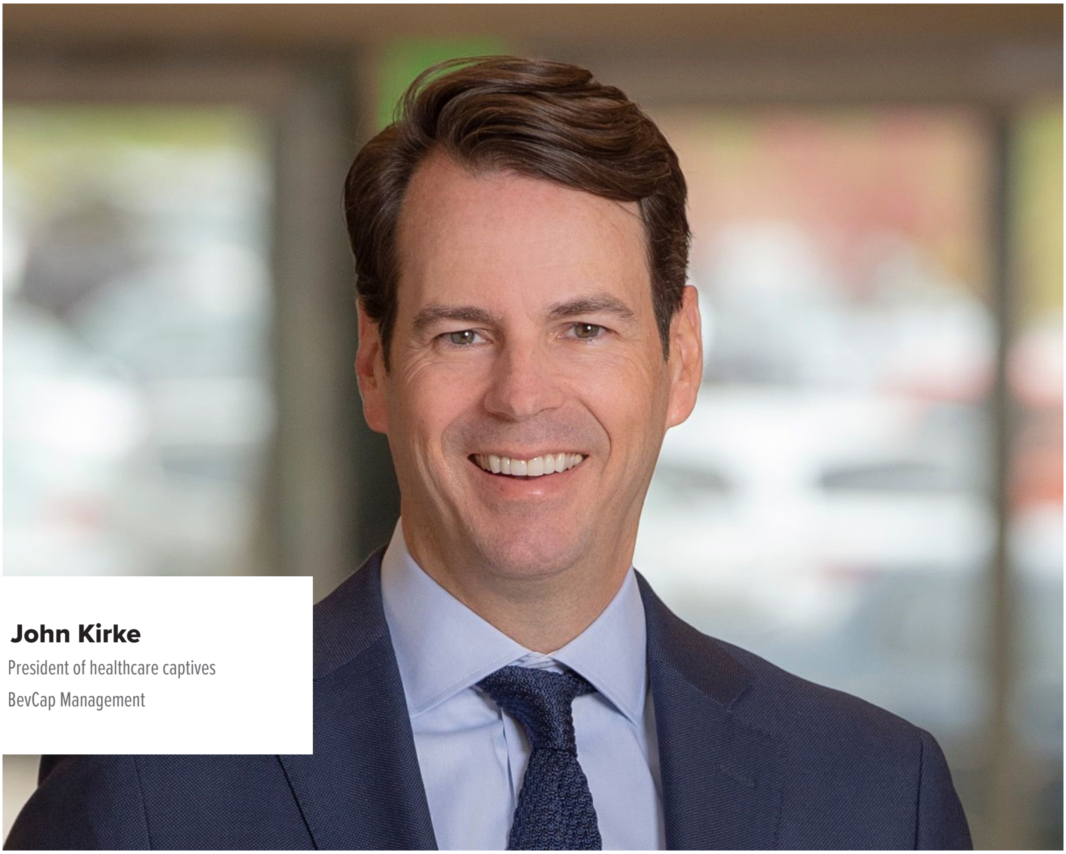
For us, the Synchro model is about both cost containment and a focus on customer service. We strive to address two critical needs in the market: optimising pricing where possible and ensuring that employees and employers understand how to derive the best value from the programme. ■

"One programme that stands out is the Synchro captive programme, a unique initiative we've developed focusing on cost containment while addressing challenges in customer service"

George Lemmon

CEO and founder

Evolution Risk Partners



John Kirke
President of healthcare captives
BevCap Management

Kirke advises

Healthcare captive guidance for brokers and plan sponsors

John Kirke, president of healthcare captives at BevCap Management, advises brokers and plan sponsors on medical stop-loss captives

Kirke's advice for brokers

What key factors drive more interest in self-funded captives for health plans?

Several compelling factors are driving the surge of interest in self-funded captives for health plans. Firstly, this includes financial control — captives provide greater control over claims expenses than the large insurance market while also allowing sponsors to be creative with new benefits or plan incentives and retain underwriting profits during positive claim years.

Secondly, stable premiums — by smoothing losses over multiple years, captives guard against dramatic premium spikes when claims rise, making budgets more predictable.

Thirdly, customisation ability — they permit customised plan design flexibility regarding networks, care management programmes and expanded plan data transparency. Additional factors such as advancing medical trends, continued high medical cost and inflation are forcing sponsors to pursue creative cost containment strategies such as captives to offset trend impacts.

In essence, captives offer multiple financial, stability and customisation advantages unavailable through insured options. By judiciously retaining risk, plans gain significant strategic andmonetary benefits: a very compelling value proposition warranting fresh evaluation.

The improving captive business case and challenging status quo healthcare cost environment aredriving robust tailwinds.

How can brokers educate themselves on the nuances of medical stop-loss captives?

Here are some highly effective ways for brokers to boost their medical stop-loss captive expertise:

Attend captive conferences, such as leading events such as the Self-Insurance Institute of America (SIIA) and the Captive Insurance Companies Association (CICA) annual conferences. These events offer deep-dive captive education sessions geared directly towards group health.

Meet with established captive managers to have exploratory discussions with experienced medical stop-loss to understand risk and cost management strategy, operational models, financial management and key success factors.

Follow leading captive publications — regularly review publications such as Captive Insurance Times.

Join broker advocacy groups by connecting with specialised associations addressing self-funding and captives. By immersing themselves in networks of captive expertise via events, designations, experts dialogues, online publications and broker groups, they will quickly get brokers up to speed on captive nuances.

Obtain niche designations — seek designations from the International Centre for Captive Insurance Education (ICCIE) in order to affirm advanced captive knowledge.

What resources can brokers leverage to determine if a medical stop-loss captive makes sense for a client?

Some key resources for brokers assessing captive feasibility are to talk to the experts first.

Speak to captive programme managers; open a dialogue about programme strategy, structure models and long-term financial requirements.

Medical stop-loss request for proposal (RFPs): submit captive RFPs through to gain insight about market pricing differences, terms, capacity, collateral requirements and other captive considerations.

Actuarial modelling firms — partner with an actuarial firm that has defined stop-loss captive modelling capabilities and expertise.

They can run as expected compared to stress-test financial forecasts based on granular claims data.

Access and use knowledge resources early in the exploration process, before going too far down the path. They can help determine whether an economical business case exists.

Where do you see the most innovation happening around self-funded captives in healthcare?

I see some exciting innovations happening around self-funded captives in healthcare in a few key areas, including: captive-enabled health programmes — captives are sponsoring innovative, disease management and care navigation programmes that are uniquely customised to the medical and drug claim insights for that specific population.

Captive-directed provider networks — some captives are establishing direct relationships with providers on a “cash pay” basis and centres of excellence focused on procedures that drive a large portion of their spend based on data findings.

Pharmacy Strategies — captives are increasingly focused on the pharmacy spend volatility and implementing programmes under the captive’s oversight to mitigate costly drug expenses.

The common ingredient I notice across these trends is that captives enable plan sponsors to take an active role in healthcare usage management for their populations, as opposed to just financially covering costs. It’s strategic risk taking and retention enabled by access to transparent claims data.

This data-driven engagement by captives will only expand further.

What future trends or developments should brokers be aware of?

Healthcare captives have been in existence for more than 15 years. Medical stop-loss captives are a rapidly evolving option for benefit plan sponsors and are no longer a niche or “alternative” strategy.

Some key trends brokers should keep on their radar include: growing interest from smaller groups — brokers are increasingly receiving captive inquiries from mid-size and smaller self-funded plans as feasibility improves through new captive arrangements requiring less capital.

Influx of new captive managers — several health-focused MGUs and emerging captive programme managers are launching turnkey captive services catered specifically to the middle market, bringing new competition and innovative offerings.

Increasing reinsurance capacity — more reinsurers are targeting captive medical stop-loss as an attractive specialty line. This expands available capacity for new captive formations.

To summarise, the captive space is professionalising and hungry for self-funded plan growth.

Brokers must stay on top of trends to ensure clients make well-informed captive decisions and select optimal partners to meet their needs as the landscape rapidly evolves.

Kirke’s advice for plan sponsors

What factors should a plan sponsor evaluate before considering a medical stop-loss Captive?

Primarily, plan sponsors should consider their “readiness” for self-funding as a first measure. They should ask questions, such as are we an appropriate group size? Larger employer groups of more than 75 to 100 employees can better leverage the law of large numbers and absorb unexpected claims fluctuations. Does my health plan have enough historical claim data to evaluate projected claims volatility?

Perform financial modelling. Have a consultant run financial forecasts to estimate the captive's projected financial performance under different claim scenarios.

In terms of captive governance, firms should understand the participation and ownership of the captive, capital reserve requirements, governance and member education.

For risk retention, how much should we as a plan sponsor take in self-insured retention before the captive and reinsurer step in?

When considering a member profile, firms should be aware of the member profile of the captive. Also, are the members engaged? Are they enabled with best practices and communication to maximise programmes in the captive?

How can plan sponsors maximise control and flexibility with a self-funded captive?

When orchestrated strategically, a self-funded healthcare captive can put a plan sponsor in the driver's seat to deliver new and better financial outcomes.

A primary strategy is to depart from the fixed infrastructure or ecosystem of large insurance and independently "precision purchase" the components that make up the health plan administration, for example: claims administration, networks or pharmacy benefit management.

Control the plan document. Develop and adopt targeted risk and cost management programme with greater data access and visibility into chronic conditions driving costs. There is also the option to deploy targeted member health and claims initiatives customised from the data a plan sponsor acquires from a self-funded plan in a captive.

Change components as needed. Unlike an insurance company-controlled programme, you have the ability to tweak specific stop-loss levels, use custom provider networks, adjust partners to adapt to evolving plans and market dynamics.

The key is maintaining an actuarially sound captive where you retain calculated levels of risk while customising administrative processes, coverage provisions and health initiatives. This allows greater flexibility for innovation.

What results have you seen captives deliver for health plans and sponsors?

Healthcare captives can potentially deliver several beneficial results for health plans and sponsors when structured appropriately. This includes cost savings compared to standard health insurance.

By retaining underwriting profit and investment income in years with lower than expected claims, captives can produce measurable hard dollar savings in comparison to fully insured options.

Smoothed rate volatility. Rather than facing double-digit rate hikes under traditional stop-loss during spikes in medical trend, captives allow sponsors to plan budgets more consistently thanks to controlled underwriting.

Customisation — captives permit great flexibility to tailor contract terms, networks, premium payment options, claims oversight and data transparency to each plan.

Enhanced focus on health management, with comprehensive claims visibility driving insights plus incentive funds via lower costs, sponsors can invest in advanced population health efforts.

However, captives aren't a silver bullet solution. Strict financial controls and close actuarial management are vital to ensure responsible risk-taking tied to strategic benefits objectives. For qualified plans, captives unlock significant advantages. Understanding a plan's population unique risks, modelling captive feasibility in-depth and implementing strong risk and cost management practices. Captives can be a game-changer, if executed well.

How can captives help manage risks like high-cost claims?

The unique value of a captive is getting to access the claims data to proactively manage population health. It allows for digging into the numbers to identify costly conditions early and enrol high-risk participants in case management programmes to avoid large events down the road. Do the health improvement work upfront.

Access to data also lets you bring in auditors to scrub claims for savings opportunities and create specialty provider networks independent of the large insurance carriers. This custom provider access allows better control of expenses.

A captive really provides flexibility to take calculated risks tied directly to your population and your strategy as a plan sponsor.

Contrary to just buying insurance each year, you can retain risk when it makes sense long-term and invest in total population health. The focus becomes providing the best care management rather, than chasing the lowest insurance premium all the time.

Ultimately, captives are about balancing some smart risk retention with gains in healthcare quality and premium efficiency unique to your benefits programme.

Taking on risk is easier when you can mitigate it through data-driven health improvement initiatives. That's the captive difference.

What advice do you have for plan sponsors new to the captive concept?

Plan sponsors exploring the captive concept for the first time have a lot to consider. A good starting point is being open to a new mindset and educating yourself. Captives represent a significant shift in strategy, requiring a new mindset that differs from traditional approaches to health insurance. Develop strong foundational knowledge of how healthcare captives are structured, their risk and cost strategies and member makeup before committing.

Think long-term and be conservative financially, especially initially. It takes multi-year performance to prove viability. Seek actuarially sound risk taking deductibles and gradually adjust risk-taking levels.

Have executive leadership buy-in with commitment to oversight. Getting the most from a captive requires dedicating leadership focus and establishing new benefits management processes to align with the new risks taken on. To create new results from your captive health plan, you want to be an active manager within a captive.

Engage specialists early and often. Actuaries, underwriters, consultants, with captive expertise are invaluable to modelling feasibility and identifying risks. Draw on their experience.

Focus intensely on population health improvement. A huge potential benefit of captives lies in what you can invest retained savings in — care management programmes, health analytics, etc. Advance these strategies all the time.

Patience pays. Assume a multi-year runway to begin seeing captive results. If done prudently, captives offer game-changing advantages. The most crucial mindset shift is recognising that a captive allows plan sponsors to take risks they couldn't take previously. Manage those risks wisely and strategically to unlock significant new value. This takes an investment in expertise and governance. The effort is justified for many plans, given potential gains. ■

Group captives for small to medium-sized businesses

Summit Re's Tonya Crawford speaks to John Savage about the value of using group captives for employee healthcare benefits

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What are some of the main benefits group captives can provide over the traditional, fully insured model?

Group captives are a great way for small to medium-sized businesses to self-fund their employee healthcare benefits in the same way the largest companies in the US do. When an employer transitions from a traditional, fully insured health arrangement to a group captive model, they stand to gain in three significant ways: long-term cost savings, transparency into claims data and control over benefit design.

In a fully insured model, an employer group often faces an annual renewal rate that includes a 15 to 30 percent increase — or more — without much understanding of what is driving the rate increase. In the group captive model, this trajectory is greatly reduced, commonly enabling employers to realise an average savings of 20 per cent over the traditional, fully-insured model over five years.

Additionally, some group captive programmes are designed to pay dividends to captive members when their health plan performs well and the captive programme as a whole performs well, so not only can this model help an employer achieve cost savings, but there is also potential for profit.

Another significant advantage of the group captive model is transparency. In a fully-insured arrangement, access to claims data is often limited. However, in the captive model the employer owns the data and gains full access. This allows the employer the ability to assess the health profile of its population, identify cost-driving factors, and anticipate future cost trends.

Having access to this data allows the employer to take action, reducing the frequency and severity of claims.

When considering a group captive arrangement, it's important to look for a captive programme that not only grants the employer access to its data, but also helps the employer understand it.

Dealing with claims data can be daunting, so it is important to receive the data in a user-friendly and actionable format. Employers should ask prospective captive programmes how their data will be made available and what assistance they will have in interpreting and taking action on it.

The group captive model also provides greater control over plan design and health plan partners than the traditional, fully insured model. An employer in a group captive has the ability to design an employee health plan that is uniquely customised to fit the needs of its employee population, from provider network to pharmacy options to member support programmes.

Could you highlight the group captive models that differ regarding the plan partners an employer can partner with?

A self-funded employee health plan within the group captive will require multiple partners for operations, including a provider network, a third-party administrator (TPA), a stop-loss partner and a pharmacy benefit manager (PBM). When exploring group captives, there are two different models to consider when it comes to plan partners. Some group captives offer a prescriptive approach, where a specific set of plan partners has already been chosen. Typically, this involves selecting from a handful of network options, and a smaller portfolio of TPAs, PBMs and cost containment vendors, with the group captive exclusively working with these partners.

In contrast, the second model adopts a more open stance, allowing employers more flexibility to bring in partners that align best with their requirements. The decision between these models hinges on an employer's individual needs. If they already have established partnerships that are integral to health plan operations or have a preferred plan administrator in mind, it is crucial to ensure that the prospective captive programme can accommodate these preferences.

"Transparency into population health and cost data empowers employers to be proactive when it comes to potential high-cost claims and chronic health conditions"

Alternatively, if the employer is new to self-funding and seeking guidance, opting for a captive with pre-selected, best-in-class providers may offer a turnkey solution that will provide the necessary support and expertise as they navigate the intricacies of group captives. The great news is that there are many group captive options to choose from, each offering unique value propositions.

What types of proactive cost containment strategies can a group captive enable that employers may not have access to otherwise?

From a provider network perspective, employers often have access to large networks like Cigna, UnitedHealthcare, Aetna, and the Blues, but there are also regional networks that often come at a lower price point.

Employers can explore what we refer to as reference-based pricing and direct contracts with health systems that offer preferred pricing for employees when they access specific providers.

Another important aspect of cost control is selecting the right PBM. Mirroring the network selection process, while there are very large PBMs in the market, typically owned by the large national carriers, there are also boutique PBMs that offer significant cost controls, more customised programmes, and full transparency into prescription drug costs.Partnering with one of these smaller PBMs may help achieve savings over the traditional Models. Additionally, transparency into population health and cost data empowers employers to be proactive when it comes to potential high-cost claims and chronic health conditions. Employers work with the captive programme to implement tailored cost containment programmes, such as specialty pharmacy programmes to address high-cost prescription drugs, and population health initiatives targeting chronic conditions like diabetes and cardiometabolic diseases, which pose long-term risks to the workforce.

By adopting these programmes employers can effectively manage costs and improve the health outcomes of their employee population.

What are some best practices that captive managers use to facilitate collaboration, networking and education between member employers?

Another significant benefit of the group captive model is that members are joining forces with like-minded employers — those with an entrepreneurial spirit who are genuinely interested in taking control of their healthcare expenses and enhancing the experience for their employees.

Captive managers and consultants convene these members annually through board meetings, which often include networking opportunities. This gives employers a chance to learn from each other, share strategies used in their various health plans, and learn what is effective and what isn't.

Sharing different insights and experiences with those encountering similar challenges presents a valuable opportunity to propel the captive towards its optimal position.

How can smaller employers with less than 300 covered lives benefit from participating in a group medical stop-loss captive?

Actually, that is an ideal size for a group captive. Group captive membership is open to employers with 25 employees up to roughly 1,000 employees.

Employers in this size range should explore a group captive if they are looking for long-term cost control, willing and able to participate in the management of their employee health plan, comfortable taking on risk, and open to innovative programmes that can reduce their employee healthcare spend over time and improve the experience for their employees.

What criteria should be used to evaluate potential managing general underwriters (MGUs), reinsurers, and other partners when forming a group captive programme?

When it comes to engaging MGUs and reinsurance carriers, it is critical to seek partners who are willing to collaborate closely with you to craft a programme that aligns with the objectives within your captive programme. It is important that your MGU partner has a consultative approach that offers guidance on underwriting with full transparency into the development of pricing and terms.

Additionally, captive programmes will want to work with an MGU with access to 'A+' rated carriers and a variety of reinsurance options. Look for an MGU that boasts a proven track record in partnering with captive programmes and is prepared to offer personalised, bespoke solutions. This ensures that your captive programme can be finely tuned to achieve the outcomes you desire. Selecting an experienced MGU with a strong understanding of the captive space is paramount. ■

"When it comes to engaging MGUs and reinsurance carriers, it is critical to seek partners who are willing to collaborate closely with you"

Tonya Crawford
Regional vice president
Summit Re

Better together

Tracy Hassett of edHEALTH explains the motivations and strategies behind the Vermont-based health insurance solution for educational institutions

Why and how was edHEALTH established? How has edHEALTH's membership grown over time, and what types of institutions currently make up its member base?

edHEALTH was created to help bend the trend in rising employee healthcare costs at colleges and universities. We started looking into solutions, in the form of feasibility studies, in 2008, and edHEALTH was launched on 1 July 2013 with six Massachusetts colleges and universities.

We now have 27 member-owners in six states and continue to grow. Our member-owners are colleges, universities, private secondary schools and charters schools.

What core strategies has edHEALTH employed and how have they contributed to the organisation's growth and success?

edHEALTH's success is in using our pooled purchasing power to negotiate fixed costs. Our Vermont-domiciled medical stop-loss captive is where we come together and pool our risk, which smooths out volatility.

Another key contributor to the healthcare solution's success is our laser focus on claims cost control. We're also always looking for opportunities to help faculty, staff and their families make educated decisions about their healthcare and have access to great care.

How has your captive insurance company collaborated with members to yield better cost and care outcomes?

Over 10 years, we have saved our member-owners more than US$160 million. We have 100 per cent retention, and our average premium equivalent is 3.8 per cent, compared to the industry trend of 8 per cent. Why? It's all about collaboration.

Our members own and govern their own medical stop-loss captive. They all come together to share ideas, benchmark data and have learned that everyone has good claims years and bad claims years.

By coming together, our members are changing tides in healthcare by offering their employees best-in-class care, access and point solutions, and education.

How has the healthcare system evolved since edHEALTH was formed?

The care system changes every day, whether it's changes in compliance, mergers and acquisitions of healthcare systems or new drugs to market that are very expensive. It's difficult to keep up with those changes.

These new developments, however, are saving lives and treating conditions that have been untreatable in the past.

Has your captive been able to accumulate surplus over time? If so, how are you utilising that surplus to benefit members?

Our captive has been very successful in growing its surplus. A portion of it is invested; we have taken on more risk in the captive, reducing the amount of excess reinsurance we purchase from the commercial market and paid our members dividends. Schools can utilise their savings on their campuses in areas that are critical to their sustainability — controlling tuition costs, hiring best-in-class faculty and staff and maintaining campuses to name a few.

Sharing risk, collaborating and pooling resources are key ingredients to a successful captive. In the ever-changing healthcare system where cost continues to rise, and transparency is wanting, there is little a small-to-midsize single employer can do alone — coming together in a captive is a no-brainer!

What motivated the recent transition to a sponsored captive structure? And what potential new opportunities does this open up?

Our members have had success with the medical stop-loss captive and asked us how else we could come together to share resources and reduce costs. Creating a sponsored captive enables us to consider other lines of coverage in the market with shrinking coverages and rapidly increasing premiums. Our members have expressed interest in expanding into other areas such as employee benefits, property and casualty, auto, cyber, student insurance and more.

Why did you select Vermont as your captive domicile? And how would you characterise the experience of working with Vermont's regulatory team?

We chose Vermont in large part because of the regulators — they are accessible, helpful and smart.

"Sharing risk, collaborating and pooling resources are key ingredients to a successful captive"

The state is also home to some of the world's best captive service providers: captive managers, attorneys, consultants, actuaries and investment managers.

I have never hesitated to reach out to the regulators to ask questions or bounce ideas off of them. When we first started to consider converting our group captive to a sponsored captive, I approached the regulatory team. They were supportive and pointed us in the right direction. ■

Tracy Hassett
President and CEO
edRISK

Christine Brown
Director of captive insurance
Captive insurance division
Department of Financial Regulation
State of Vermont

Medical stop-loss hits the scene

Picture this: It’s the early noughties and medical stop-loss captives have just been approved in Vermont. The state’s captive insurance director Christine Brown reminisces, considers growth and tells John Savage the latest developments

When did medical stop-loss first come onto the scene in Vermont as a possible way to utilise a captive?

In 2006, we had 14 captives approved to write medical stop-loss coverage; therefore I would estimate that they first came onto the scene in the early noughties.

Today, we have approximately 70 risk-bearing entities, in the form of licensed captives and protected cells, that provide medical stop-loss coverage, which is a whopping almost 400 per cent increase since 2006. Recent figures show that Vermont captives wrote approximately US$786 million in gross premium associated with medical stop-loss coverage in 2022.

Why are more captives forming for medical stop-loss purposes?

The rapid rise in healthcare costs is a driving factor. More employers are exploring self-funded plans as an option to stabilise the cost of healthcare delivery. According to a survey published by the Kaiser Family Foundation, 65 per cent of covered workers in the US were in self-funded health plans in 2022.

Many employers are finding value in having their captive participate in the excess coverage, stop-loss, to support their self-funded plans. In addition, a captive that participates in the stop-loss can address issues like lasering, which can occur with traditional carriers, and provide a difference in conditions coverage to employers.

It is great to hear from Tracy [Hassett] about the savings experienced by edHEALTH and how the employers put that money to use. In addition to financial stability, another benefit to medical stop-loss in captives is the ability for employers to capitalise on the surplus built up from favourable underwriting results as well as investment returns through dividend distributions to support operations, offset future plan costs or expand the benefits offered.

"Recent figures show that Vermont captives wrote approximately US$786 million in gross premium associated with medical stop-loss coverage in 2022"

From a regulatory perspective, are there any particular considerations when forming a captive for medical stop-loss?

A very important question we ask is: who is benefitting from the programme? It has to be the employer and, indirectly, employees. If we see excessive fees to service providers when putting these deals together, it is a red flag. However, if structured correctly, putting medical stop-loss coverage in a captive can stabilise or even reduce costs while improving risk management through support of wellness programmes, virtual telemedicine and predictive modelling. This results in better health outcomes, which is the end goal.

Going forward, how do you expect medical-stop-loss will continue to be involved?

This will continue to be a growing area in the captive industry. I've heard some really inspiring stories about captives playing a role in diversity, equity and inclusion (DEI) initiatives through voluntary benefits and medical stop-loss by providing customised coverage that addresses the unique healthcare needs of a diverse employee population. A thoughtful design of the stop-loss coverage can consider factors that align with DEI goals for greater employee health and satisfaction. I'm excited to see what the future holds. ■

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We currently advise 45 group captives — including four medical stop-loss group captives — comprising 6250 member-companies and more than US$4 billion in annual premium.

Captive Resources has supported medical stop-loss group captives for more than a decade to help employers self-fund in a stable environment with a group of best-in-class, engaged employers.

The medical stop-loss captives we support empower best-in-class companies to:

- Take control of their insurance programs.
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edRISK and edHEALTH

Established in 2013, edHEALTH is the proven employee healthcare solution for higher education and secondary schools. This programme provides savings through group purchasing,

Ownership and data-driven innovative programmes, with US$300 million of annual funding and US$18 million of capital reserves at the stop-loss captive. edHEALTH offers the strength of collaboration with its member-owned institutions and best-in-class business partners.

The edHEALTH programme is a part of edRISK, a sponsored captive domiciled in Vermont, which is expected to grow significantly in the coming years.

More information: *info@educatorshealth.org*

Evolution Risk Partners

Evolution Risk Partners (ERP) is a leading managing general underwriter, redefining partnership through a shared vision of success with employers and brokers. We provide our clients with customisable and innovative medical stop-loss solutions including traditional stop-loss underwriting, level funded products, specialty stop-loss programmes and captives.

ERP represents A and A+ rated carriers, offering an efficient and seamless client experience with direct access to underwriting, relationship leaders and claims industry experts. Our experienced team works tirelessly to provide prompt claim reimbursement and cost-saving solutions for our clients.

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The Insurance Managers Association of Cayman (IMAC) is a membership organisation that represents the international insurance industry in the Cayman Islands. Our membership includes local insurance managers, captive insurers, service providers and overseas members.

We liaise with the government and the Cayman Islands Monetary Authority on the industry's behalf to ensure our members' interests are at the forefront of any discussions. We promote the Cayman Islands as the jurisdiction of choice for international insurers both locally and overseas, highlighting the strengths of the Cayman Islands as a global leader in captive insurance, which includes its commitment to excellence, regulatory compliance, and client-centric service. We host the Cayman Captive Forum each year, which is organised for the industry by the industry and has grown to become the largest captive insurance conference in the world

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Xchange Benefits, LLC

Xchange Benefits is a medical stop-loss managing general underwriter (MGU) who owns and operates a core captive facility domiciled in the State of Tennessee. XB Captive Solutions (XBCS) is our captive solutions unit that is backed by more than 100 years of combined underwriting experience.

Together we provide full-service, customised captive solutions for employers through which all member employer and producer needs are met within one company. Each of our single-parent or group captives are protected cells designed to give the members increased control and transparency of their medical stop-loss, employee benefit or property and casualty (P&C) insurance programmes.

XBCS is committed to building well-structured, responsibly underwritten, effectively managed captives focused on giving employers and consulting firms a long-term competitive business advantage.

Our open architecture captives allow members to work with the administrators and risk management vendors of their choice while leveraging our extensive list of preferred or proprietary providers in key areas such as cancer, musculoskeletal, end-stage renal, maternity, cardiac, specialty drugs, surgical centres, primary care, direct contracting, referenced-based pricing, cell and gene therapy and more. We use detailed data analytics to identify the high-cost drivers within each cell to ensure members are implementing the most impactful cost containment solutions.

The size and scale of the captive can also give members access to cost-effective healthcare solutions often only available to larger employers. All programmes include robust programme management services focused on monthly captive performance reporting, quarterly captive member strategy calls and annual captive member and advisor meetings. We have designed this process to help increase the members' understanding of the programme, their individual risk drivers and improve collaboration within the captive to maximise shared success. Trust XBCS to be your agile captive solution partner.

For more information, please contact Chris LaDelfa, senior vice president of captive solutions, at *captives@xbllc.com*