



**Captive Consulting**

# Medical Stop Loss: The Use of Captives for Healthcare

# The Use of Captives for Healthcare



Strategic Risk Solutions is the world's largest independent insurance company manager.

As a US-based independent captive insurance consulting and management company, we complete more than 25 feasibility reviews annually. Captive consulting and management is our core business, allowing us to provide detailed financial and operational analysis to you our clients. With this information, you have what you need to make an informed decision on the use of a captive structure.

Our more than 900 managed insurance clients write over \$8 billion in annual premiums. And as an independent company, with no broker ownership, SRS has no bias or inherent conflicts.

Our captive consulting services support the operations of our captive management business. As a global organization, we're domicile neutral and will manage captives in any territory where our clients wish to domicile their captives. Our experience captive consultants provide both feasibility consulting and on-going consulting support to our captive clients.

***"I used SRS's consulting services before we were an SRS client. The folks are smart, quick, and strategic in thinking. The displays were professional and well-explained."***

Jan Klodowski, VP/Director of Captive Operations,  
Agri-Services Agency

## Feasibility Consulting Services

- Pre-feasibility assessment
- Development of loss projections in conjunction with actuary
- Premium development
- Captive program design
- Cost benefit analysis
- Domicile comparison
- Development of financial pro formas
- Business plan development
- Capital and collateral assessment including negotional with fronting companies
- Identification and selection of service providers

As a captive management firm, we take a very practical approach to assessing the feasibility of a captive. We have hands on experience of what does and doesn't work in captive insurance. We stand behind our feasibility advice in developing long-term relationships to manage successful captives. We will not take on a management contract unless we believe the captive is sustainable.

## On-Going Consulting Services

- Annual premium development
- Collateral estimation and negotiation
- Drafting of policy wordings
- New member underwriting for group captives & RRGs
- Feasibility analysis for new lines of coverage
- Re-domicile analysis
- Re-structuring analysis (RRGs, branch captives, reciprocals, etc.)
- Strategic Planning

Our consulting services support the operation and development of our existing captive clients. A captive consultant is assigned to every management account to provide on-going consulting services as required by the client.

The use of captives for employee benefits has been an area of growth over the past decade. Our experience in employee benefits covers the use of both single parent captives writing medical stop loss or ERISA benefits and group captive programs for mid-market companies.



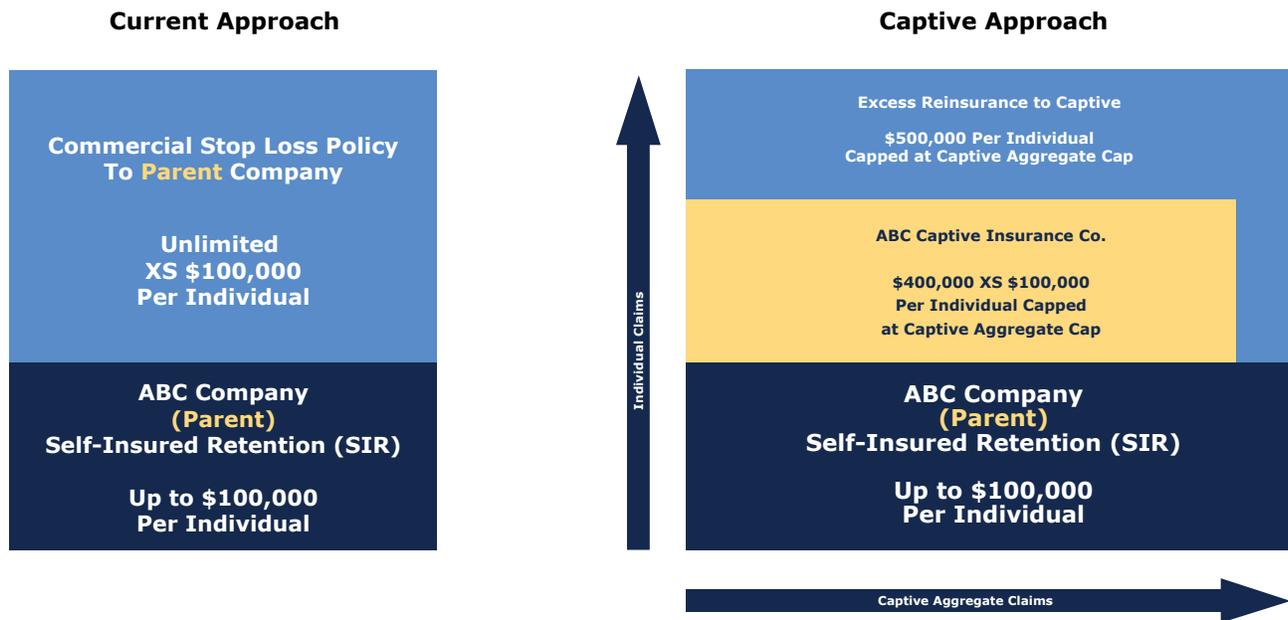
## Medical Stop Loss

Writing medical stop loss coverage in a captive is a growing solution for both large companies and small to mid-size employers. It allows its owner to potentially reduce fixed expenses and retain underwriting profits that the carrier otherwise keeps. Combined, the captive owner can reduce year-over-year costs.

## Single Parent

With the evolution of the Patient Protection and Affordable Care Act many larger employers who currently self-funded their medical plans have either considered writing this coverage in their existing captive or including it as they develop a captive insurance company. In addition to retaining underwriting and fix costs profits, writing medical stop loss allows for diversifying the captive’s risk portfolio. The addition can provide short-tail stability versus many of the other lines covered in a captive, which tend to be long-tail coverages. There are three basic structures:

- **Captive Direct:** Issuance of a policy for the entire coverage amount excess a specific deductible, and then the transfer of the layer of risk that it does not want to retain to a reinsurer.
- **Captive Issued with MSL Policy:** Issuance of a policy for only the corridor amount of its retained risk layer above a specific deductible. The employer then procures a traditional MSL policy for the remainder of risk above the captive corridor.
- **Fronted MSL Policy:** Employer purchases a traditional MSL policy for the full amount of risk. The MSL carrier then cedes a layer of policy risk to the captive. The MSL carrier will require collateralization for the captive’s risk layer.

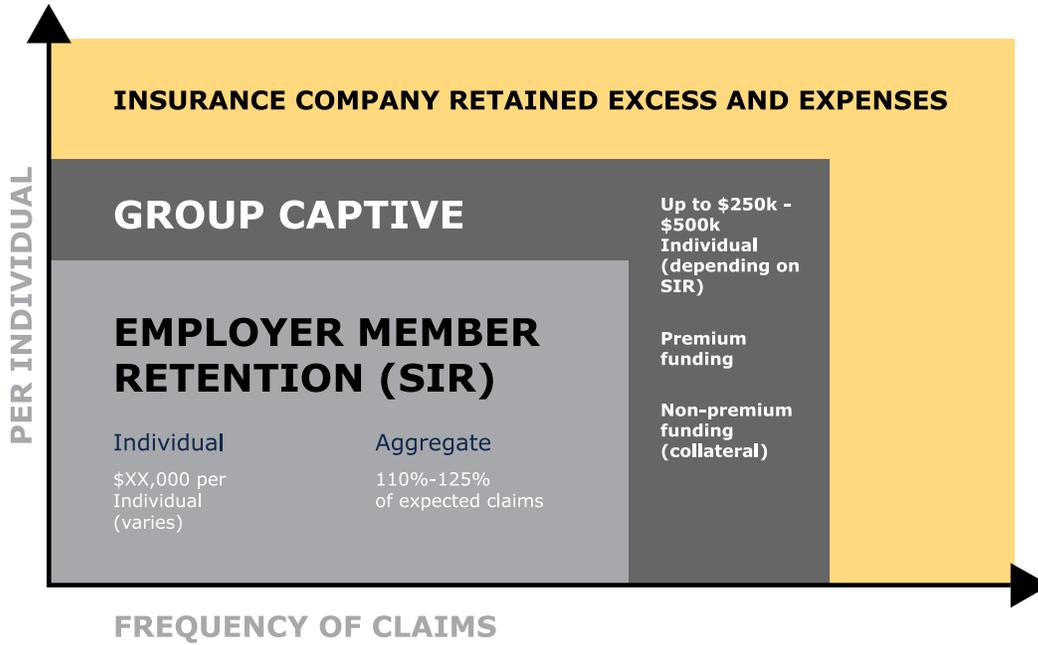


## Group Medical Stop Loss Captive

Whether heterogeneous (dissimilar industries) or homogeneous (similar industries), the objective of a group captive is to enable an alliance of mid-market employers (50-500+ employees) to replicate the risk profile of a single large company. That is, enabling the spread of risk, stability, and achieve cost savings from different service providers otherwise not as readily available to each employer alone. In general, the structure of a group medical stop loss captive is as follows:

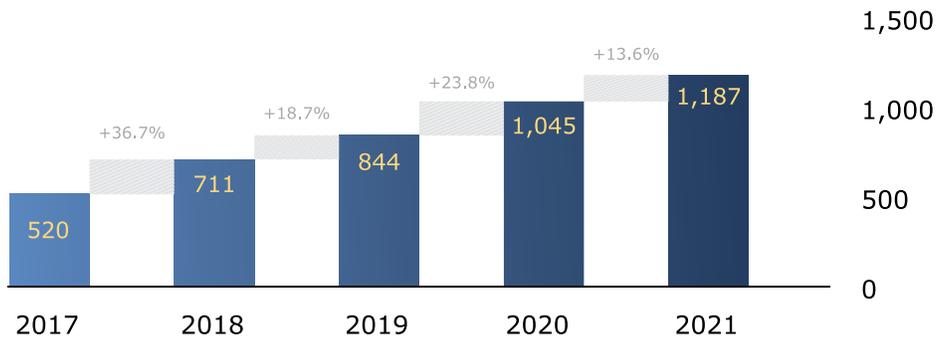
- A group, whether heterogeneous or homogeneous, procures stop loss insurance from one provider
- Each employer has their own self-funded health plan administered by one TPA or a variety of pre-approved TPA’s (keeping in mind that you want to leverage size)
- Each employer purchases specific and aggregate stop loss insurance based on their risk appetite, size, etc. This is purchased from the same carrier that will also provide excess reinsurance to the members of the captive.
- The captive, jointly owned by all the members, assumes a layer of specific medical stop loss risk (i.e. capped at \$250,000 excess each employers self-insured retention)
- The fronting stop loss carrier provides specific and aggregate protection to the captive, capping the risk of the members.
- SRS manages over 45 group medical stop loss captive programs, of which some are “open” programs allowing for an employer to assess joining the group.

## Group Medical Stop Loss Captive

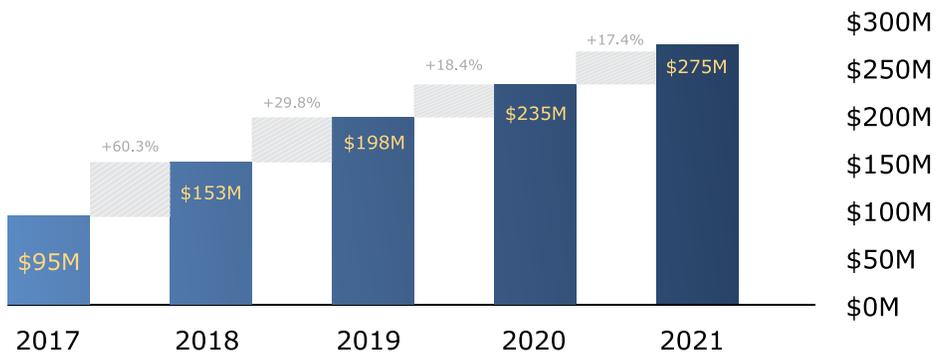


## Growth of SRS Managed Group Medical Stop Loss Captives

### Growth in Number of Employers



### Growth in Gross Premium



# Experience & Success

SRS has vast experience in assisting clients with structuring both single parent captives funding medical stop loss in a captive, as well as supporting clients assessing various group medical stop loss options or developing their own program. Approximately 50 of our single parent captives assume a layer of medical stop loss risk in their captive. Our success as a firm is dependent on our clients' success. It's not good enough to just keep your captive's books and records. We want our clients to succeed and have developed specific services to help them succeed.

## Technical & Analytic Services

Our technical and analytic services provide a captive with its own underwriting resources. Our services include loss scorecards and cause of loss reports to proactively manage loss costs, data management, pricing, allocation, policy issuance, premium rating services, and analytic services in support of reinsurance, collateral, and fronting negotiations.

## Strategic Consulting

We take a lifecycle approach to captive development from feasibility to strategic reviews, expansion, re-domestications, and even run-off. We aim to help the captive maximize the value it provides to its owners at any stage in its development. Our ratio and benchmarking analyses enable our captive clients to assess their overall performance against the industry and peers.

## Practice Groups

### Employee Benefits

SRS has been at the forefront of developments in the use of captives for employee benefits, including group health, dental, group life, long terms disability, and retiree medical.

### Healthcare

Over one-third of our captive clients are owned by organizations in the healthcare industry. We work with healthcare captives in all of our offices and with many different types of captive and ownership structures.

### Risk Retention Groups

Our experience includes managing RRGs in Arizona, D.C., Delaware, Nevada, South Carolina, Tennessee, and Vermont.

### Construction

SRS provides captive management services for more than 100 construction related entities across the country. We serve a broad range of construction sectors with single parent and group captive solutions.

### Energy

Our energy experience spans oil and gas, regulated utility and transmission and distribution sectors. We manage energy captives both onshore and offshore.

## Our People

Our business is about our people. A client's experience is dependent largely on the quality and depth of their account team. At SRS we have taken several steps to ensure that our clients have access to experienced, qualified captive insurance professionals. We have made a conscious effort to hire and retain experienced captive insurance professionals in our business. As captives are a focus for us, our incentive programs are designed specifically for our captive management and consulting personnel. All of our account teams include a director of the company providing clients with direct access to the senior management of the firm. Our staff has received high ratings in our customer surveys for their responsiveness and attention to detail. We have not experienced high levels of staff turnover and many of our staff are long-term employees.

***"Every day we are more and more convinced we made the right move changing to SRS."***

Angela Richards, Express Professional Indemnity Company

## Services

### Captive Management

- General management services
- Financial reporting
- Regulatory compliance

### Captive Consulting

- Feasibility studies
- Strategic reviews and re-feasibility studies
- Run-off and closure services

### Program Management

- Underwriting and technical insurance consulting
- Loss analysis
- Fronting, reinsurance, and collateral negotiation

# Your Consulting Team

## Michael O'Malley

*SVP & Managing Director  
Advisers*

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## Michael O'Malley

Mike leads SRS's consulting practice, where he conducts and oversees statistical loss and exposure analyses, feasibility studies, and financial analysis for captives and other types of risk financing programs. Mike will lead consulting activities on the project. Mike has more than 20 years of experience in the captive and insurance industries and has written several articles on captives and alternative risk financing techniques. Prior to joining SRS he worked as an underwriter and financial analyst in the insurance industry.

Mike has a Bachelor of Science degree (cum laude) in Finance/Economics from Bentley University and an MBA (magna cum laude) with concentrations in entrepreneurship and tax from Babson College. He holds Associate in Risk Management (ARM) and Associate in Reinsurance (ARe) designations. Mike is also a graduate of the Center for Enterprise Risk Management Advanced Studies Program at Georgia State University.

## Wendy Dine

*Associate Director  
Advisers*

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☎ +1 202 629 2742

## Wendy Dine

Wendy is an Associate Director in our Washington, D.C. offices and Chair of the firm's employee benefits practice group. Her responsibilities include supporting consulting sources with analyses, underwriting and feasibility studies for all single parent and group program prospects and clients assuming medical stop loss, ERISA or voluntary employee benefits risk within their captive. In addition, her responsibilities include the program management and oversight of group medical stop loss insurance business.

Wendy has nearly 20 years' experience in the insurance industry with a primary focus on the implementation, administration and management of self-insured group captives and programs within the Property and Casualty and Employee Benefits sectors. Additionally, Wendy served as Director of Operations for a large privately held Medical Stop Loss Managing General Underwriter. She is a frequent speaker on the topics of employee benefits and medical stop loss coverages in captives and serves on the Self Insurance Institute of America Captive Insurance Committee. Wendy has a Bachelor of Science degree in Business Management from Jefferson University and is a licensed Life & Annuities and Health Producer.

***"Love the team. Everyone is very attentive to our needs in a kind, professional, and responsive way."***

Debbie Morrison Controller, Fallon Clinic

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- Hawaii
- Arizona
- Texas
- Tennessee
- South Carolina
- North Carolina
- District of Columbia
- Vermont
- Massachusetts
- Cayman Islands
- Barbados
- Bermuda
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- Ireland
- Guernsey
- United Kingdom
- France
- Luxembourg
- Netherlands
- Switzerland
- Malta
- Sweden

