



# Medical Stop Loss: *The Use of Captives* for Healthcare

## Captive Consulting

# 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.

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.

## Feasibility Consulting Services

Pre-feasibility assessment

Development of loss projections in conjunction with actuary

Premium development



*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 wellexplained."*

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



## 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

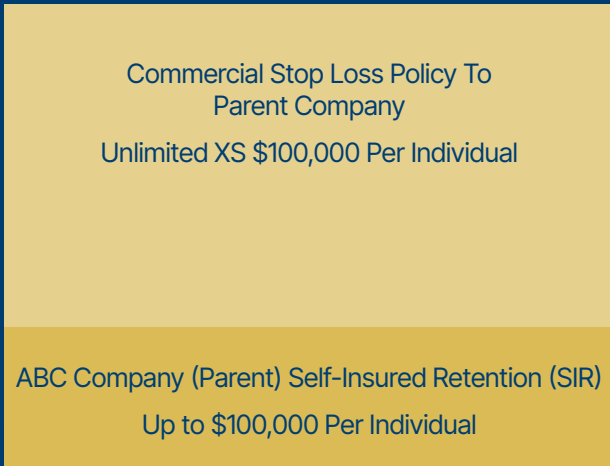
**Captive Direct:** Issuance of a policy for the entire coverage amount excess a specific deductible, and then the transfer of the layer of risk that it does not want to retain to a reinsurer.

**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.



CURRENT APPROACH



CAPTIVE APPROACH



Individual Claims

Captive Aggregate Claims

## Group Medical Stop Loss Captive

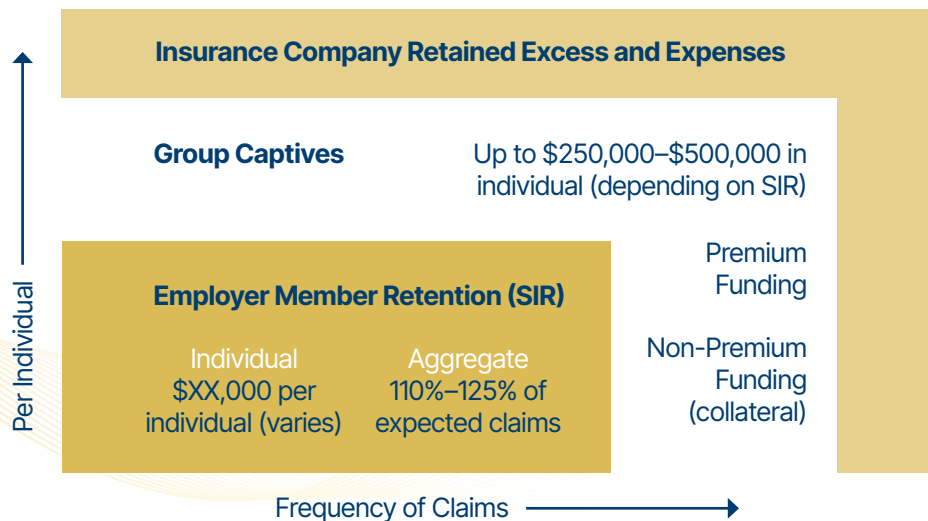
Whether heterogeneous (dissimilar industries) or homogeneous (similar industries), the objective of a group captive is to enable an alliance of mid-market employers (50-500+ employees) to replicate the risk profile of a single large company. That is, enabling the spread of risk, stability, and achieve 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 TPAs (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.

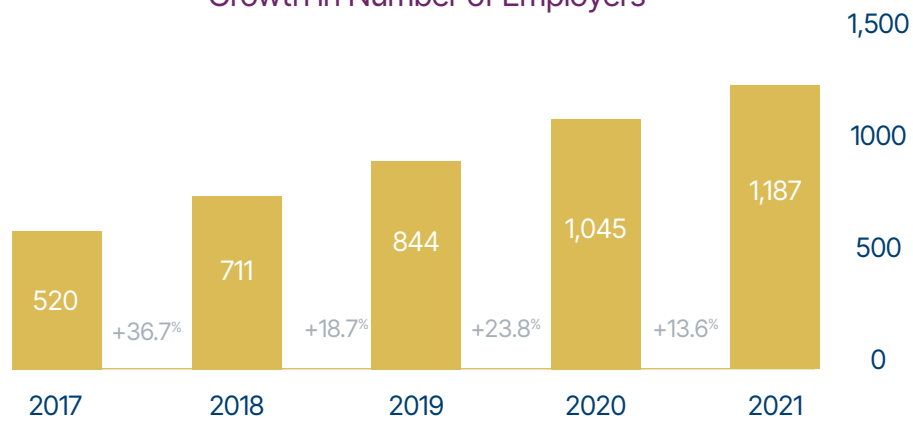
SRS manages over 45 group medical stop loss captive programs, of which some are "open" programs allowing for an employer to assess joining the group.



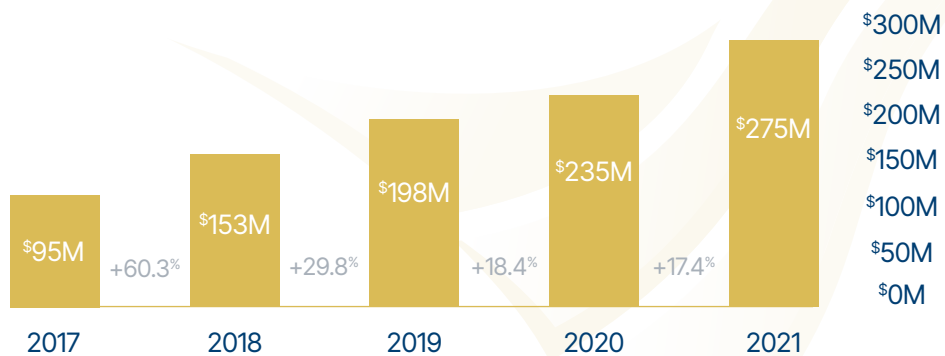


## Growth of SRS Managed Group Medical Stop Loss Captives

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, redomestications, 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 ratios 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.



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

Angela Richards  
Express Professional Indemnity Company

## Group Medical Stop Loss Captive

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.

## 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





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

Debbie Morrison  
Controller  
Fallon Clinic

**North America**

Arizona  
Canada  
District of Columbia  
Hawaii  
Massachusetts  
North Carolina  
South Carolina  
Tennessee  
Texas  
Vermont

**Caribbean**

Barbados  
Bermuda  
Cayman Islands

**South America**

Colombia

**Africa**

South Africa

**Europe**

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Guernsey  
Ireland  
Luxembourg  
Malta  
Netherlands  
Sweden  
Switzerland  
United Kingdom

