FEATURE

SELF-INSURANCE & CAPTIVE CONVERGENCE

AS SELF-INSURANCE AND CAPTIVE SOLUTIONS CONTINUE TO TRICKLE DOWN MARKET, A MULTI-LAYERED APPROACH EMERGES WITH OPPORTUNITIES FOR SERVICE PROVIDERS TO FORGE UNCONVENTIONAL BONDS

WRITTEN BY BRUCE SHUTAN

As more small and midsize employers embrace both self-insurance and group captive solutions, they're no longer viewed as distinct silos. Service providers are agreeing to non-traditional strategic partnerships for operational capabilities, mutual referrals or both. In doing so, the aim is to think beyond their normal revenue streams. But it's also born of necessity, with more employers choosing to layer these approaches in hopes of achieving better results.

"What we are seeing is the natural evolution of looking for new ways to provide better products and services for our customers in an otherwise restricted marketplace," explains Rick Raup, president and CEO of Business Administrators & Consultants, Inc.

His TPA was asked to become involved with a self-funded client's newly formed medical stop-loss captive. During that process his company learned that many captives and captive managers were primarily involved in property and liability coverages with little to no experience with ERISA benefit plans or medical stop loss. "Not wanting to become a captive manager ourselves, we began offering our underwriting, claim auditing and related services to captive managers as an outsourced solution," he reports.

RISE OF MEDICAL STOP-LOSS CAPTIVES

Most captive business has involved the P&C line with limited application to group health benefits, observes Adam Forstot, VP of business development for Artex Risk Solutions. But that's starting to change in a significant way.

Medical stop-loss market soared to $18 billion in premiums in 2018 from $7 billion in 2010, while captive premiums in this space reached more than $700 million from $80 million. Also worth noting is that the percentage of self-funded employers hit 60% from 48% during that same time frame. By comparison, the excess work comp market is just north of $1 billion of premium and casualty group captive market for work comp general liability auto is estimated to be in the $3 billion to $4 billion range.

"Clearly, the numbers speak for themselves," says Duke Niedringhaus, SVP for JW Terrill Inc., a Marsh & McLennan Company. "It's the future of the benefits world to add to the list of options to minimize growth in medical expense."

An attendee of SIIA's 2018 annual national conference who works in the enterprise risk 831(b) captive space approached him following a panel discussion he moderated about the convergence of self-insured and captive solutions. "She basically was convinced that she needs to make a career move over to the medical stop-loss captive side," he recalls, trading the grey clouds of her chosen specialty for brighter growth opportunities.

While not seeing a huge upsurge of growth in the enterprise risk captives as employers try to tame group health benefit costs, especially given recent rulings by the Internal Revenue Service, Niedringhaus believes they will still continue to provide significant value. "It's a way for employers to chart their own course," he says. Another point worth making is that the retention rate for casualty group captives exceeds 98%, which he attributes to better options in that market.

The captive market's shifting focus, as dramatic as it may appear, is still an evolutionary change and there are plenty of spoils to share across all captive markets. John Capasso, president and CEO of Captive Planning Associates, LLC, traced 80% of his firm's 2018 revenue to the P&C arena, which accounted for 100% of the pie in 2013, while it has edged up to 20% on the health care side from 0% during that same time frame.

BREAKING DOWN SILOS

While integrating these solutions sounds intuitive, breaking the long-held silo mentality still takes time. Martin Eveleigh, chairman of Atlas Captive Management and member of SIIA's Captive Insurance Committee, prefers to partner with P&C vendors "because they seem to be more experienced with captives and are actually fairly well placed to help us have conversations with their benefit counterparts."

Self-insurance professionals, on the other hand, are more reluctant to delve into a captive solution, which he believes they may view as a threat to their livelihood. But that also could be because advisers from the P&C and health benefit arenas barely come into contact. "It's quite difficult sometimes to know who we should be talking to on the self-insured side of the aisle," he explains.

Liberty Mutual entered the Employer Stop Loss Market through its acquisition of TRU Services, LLC in April 2017. Since then we have merged our brands and are issuing the Liberty Insurance Underwriters Inc. (LIU) Policy.

You will receive the same service you have grown to know of TRU, but with the strength of Liberty Mutual.

For more information please contact:

Rocko Robinson, Senior VP of Underwriting and Sales

Email: Robert.Robinson01@libertyIU.com

20 Plus years of industry knowledge, expertise, and unsurpassed service

---

Strength of Liberty Mutual which holds an A rating by both Best and S&P

Plan Mirroring availability

Disclosure statements no longer required on renewal business

Specific Advance Funding ability with enhanced features for qualified producers

---

152 Conant Street

2nd Floor

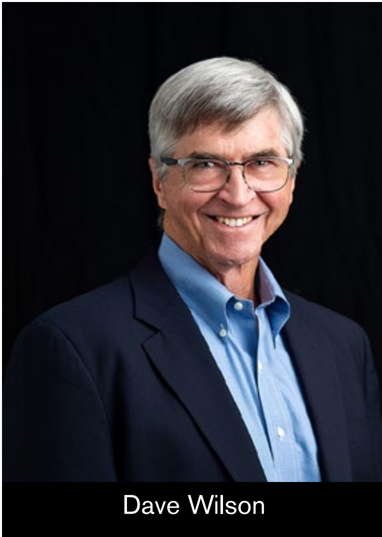
Beverly, MA 01915

Phone: 978-564-0200

Fax: 978-564-0201

Website: www.truservices.com

Liberty International Underwriters®


Dave Wilson

Captive managers are poised to take the lead on any intriguing industry developments, according to Dave Wilson, president of Windsor Strategy Partners.

"It's not often the actuary that's recommending a captive manager; it's usually the other way around," he says, noting how it generally starts with an attorney. Indeed, captive managers who have long steered work comp arrangements are now enjoying considerable interest on the medical stop-loss side.

It makes sense for P&C service providers to initiate conversations about the convergence of captive and self-insured solutions "because they have absolutely the most to gain by absorbing some of the welfare risk," Wilson opines. In contrast, he says health and welfare plan administrators don't have the same motivation to do anything different from a tax-favored standpoint once they're self-funded. They're also used to operating in a silo that seals off employee benefits from risk management.

However, there's a movement afoot across the C-Suite and industry groups to eliminate those barriers for the good of the company as a whole. Wilson cites the Society of Actuaries for its enterprise risk management initiative several years ago that even includes a certified enterprise risk analyst designation. This could expand a risk manager's role job, which he believes should enable organizations to overcome inertia on the welfare and benefits side.

"Anybody involved in a group captive on the employer's stop-loss side is already in the game," he says. "There's less friction to get something innovative done because the buck stops much more quickly in those organizations."

"I'm starting to see companies that historically were claims adjusters for purely property and casualty now delving into other areas," observes James Obregon, VP for Crum & Forster's Accident & Health Division, which recently launched the only AM Best A-rated A&H segregated portfolio company.

James Obregon

One such example is an appointment he scheduled with a third-party administrator, to examine their handling of accident and health claims. Obregon describes his parent company as one of a few that can deliver accident, health, property and casualty "within a relatively flat structure."

Indeed, the firm is aligned with managing general underwriting experts who are selecting TPAs on the accident and health side, while a guaranteed-cost offering with bundled services is the focus for small and midsize P&C customers.

Obregon noticed serious thought given to group captives riding the shirt tails of workers' compensation program success on the group medical side around 2010, which many observers believe was in response to the Affordable Care Act. Bringing together multiple lines of business as part of an unbundled solution makes perfect sense because it yields greater efficiencies and buying power, he says.

Captive owners from smaller like-minded companies are able to enjoy the scale of larger organizations by leveraging the contribution of multiple carriers across various silos, he explains. Increasingly, captive managers are partnering with their counterparts in claims, admin, pharmacy, benefits, risk, stop-loss and other areas, and in the process, integrating cultures of health and safety that reduce claims and accidents and speed returns to work.

It's certainly an intuitive action, Obregon says, noting parallels between the mission of work comp claim adjusters and the administration of group medical claims. But there's an even more compelling reason for doing so.

"Some of these vendors are moving into this convergence because they're being pulled into it by their customers," he notes. "Oddly, it's starting with small and medium-sized businesses, and at some point, maybe the silos will be taken down all the way up to big corporations." Popular solutions in the mid-market include casualty group captives, enterprise risk 831(b) micro-captives and medical stop-loss group captives.

Many TPAs and consultants manage claims on both the work comp and employee benefits side and "are now coming directly to captive groups or even forming their own solutions," Forstot notes. He has noticed much more interaction between TPAs, administrators, captive consultants, brokers and employers.

Adam Forstot

"They're much more actively involved with plan design, managing pharmacy, cost containment and large-claim advocacy," he says.

For brokers and captive managers who enjoy a solid working relationship, he believes "the persistency of that business tends to be much higher. If it's more of a transactional relationship, then employers are much more likely to shop to different brokers and carriers every year."

CONSIDERING CAPTIVE CAVEATS

Whatever the case may be, there are caveats along the way to cementing ties with various service providers, especially in the captive space. Michael Meloch, president of TPAC Underwriters, says few employers will create a single, stand-alone captive just for stop-loss coverage on their medical plan. However, he has noticed more like-minded employers banding together putting their stop loss and employee benefits in a group captive and taking risk inside of that vehicle.

His main gripe with group captives is the lack of price transparency on captive

Affordable Care Act
- Eligibility determination & Offer creation
- Reporting & e-Filing (1094/95 B & C)
- e-Filing only available
- Dedicated Customer Support Agent

Dependent Verification
- Full Audit Service or Software Only
- User friendly interface
- Direct Document upload
- Per Dependent pricing, no minimums

ACAGPS.com **470.239.5524**

manager fees. When tallying the cost of spec and ag coverage alongside securing a letter of credit, putting up collateral and becoming involved with a TPA, broker and captive manager, he believes it's higher than taking on more risk underneath a single-employer plan with a stop-loss carrier.

While the net cost of a group captive member absorbing a $200,000 claim across 20 employers will be less than a single-employer captive solution, Meloch cautions that not every employer in the group captive will have a stellar track record or risk profile. "The bigger the captive gets, the more average it becomes," he cautions.

There's certainly some intrigue associated with being part of a group captive in the Cayman Islands, a world hub when it comes to captive insurance as well as great place to visit or live, according to Meloch. "But if you're an 80-life employer in central Wisconsin, do you really think the best way to manage your portfolio of medical business is to participate in a captive in the Caymans?" he wonders.

One slippery slope is that while brokers, captive managers and others may be able to sell employers on the idea of joining a captive, Meloch says many prospective customers are used to fully insured plans and need to be better educated about their options.

Amid the growing convergence of benefits and risk management solutions that are layered with captives, is it reasonable to expect a multi-faceted version of self-insurance to become more commonplace?

"I think for people that want to self-insure, it should become the new normal," Wilson says, citing Perillo and Brownstone as driving forces for integrating work comp and benefit programs. "They have a pretty strong motivation to evolve and maintain that bleeding edge or they cease to be as relevant as they are."

Employers are recognizing that ultimately they're responsible for the health and wellbeing of their workforce 24/7 if employees are on the clock and covered under work comp or at home on the weekends, according to Forstot. "Whether you save $1 on the benefits side or workers' compensation side, it's still $1 saved," he says.

SIIA'S FUSION INITIATIVE

Recognizing these converging market forces, SIIA launched its "Fusion" initiative last year that is designed to facilitate the exchange of information and/or business referral among its members involvement with self-insured health plans, captive insurance companies and self-insured workers' compensation funds. The association expects to announce a variety of new Fusion related membership services in the coming months. ■

Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for more than 30 years.