



"The Group Captive Meets Medical Expense"

Michael A. Schroeder

Jan 5, 2010



Introduction

Health Care Reform is debated in every news outlet, every day. Ideas for a government plan option stir debate along with other wide ranging suggestions on how to stop the runaway cost of health care. Wellness programs, drug and treatment delivery methods along with coverage availability each claim to be the solution. Reducing cost or at least slowing the annual increase in the cost of medical care is the objective. How this objective is achieved is where the conflict arises.

Not surprisingly, the answer lies in a solution that brings together the best of each idea. This article focuses on a delivery method for insurance coverage known as a Group Captive. One of the most attractive features of a Group Captive is it provides the ideal insurance platform to deploy many of the cost saving ideas being discussed in the health care reform debate. The "skin in the game" structure of a Group Captive encourages the stakeholders to seek innovative cost saving ideas. In fact, the wellness programs, Rx delivery methods and coverage strategies we hear about as the latest innovation of today have all been tested by self insureds; not surprising when one considers who directly benefits when a medical expense saving is achieved.

What is a Captive?

A Captive is an insurance company that is owned and/or controlled by the insureds. Captives had their start in the 1960's as a solution for insurance coverages that were not readily available in the standard insurance marketplace. Over the last fifty years, Captive's have evolved from covering the uninsurable risks of a Fortune 500 Company to insuring everyday exposures like Workers Compensation and Auto Liability of groups and associations. It is the application of this group ownership approach to medical expense coverage that creates the Medical Expense Group Captive opportunity.

Like other Group Captive's, the Medical Expense Group Captive is owned and/or beneficially controlled by the group member insureds. Similar to other Group Captive members or participants, Medical Expense Group Captive participants are commonly homogenous in their business pursuits. An example of groups that have successfully implemented Group Captive strategies in the property & casualty marketplace include physicians, trucking companies, contractors and accountants. In all cases, the homogenous group agrees to band together and share a certain portion of the risk that is common in all of their businesses. The objective of moderating and reducing the cost of insuring their risk is realized when the group's risk management strategies reduce losses both before and after they happen.

How Does It Work?

Like standard insurance for medical expenses, a Group Captive program requires infrastructure for the effective delivery of claim payments, including a claims administration or TPA company, an insurer to issue the policies and a reinsurer to cover the large or unforeseen loss events. The Group Captive Program then adds a Captive facility that is controlled by the group to assume a portion of the risk that is typically retained by the insurer. See below the organizational diagram of a Group Captive.

The formation of the Captive facility historically caused the Captive solution to be one limited to larger organizations that could afford the time and upfront investment in actuarial, legal and regulatory professionals. Fortunately, the innovation of the segregated account rent-a-captive facility enables the middle market to access the benefits of a Captive solution. These segregated account Captive facilities enable an insured or group of insureds to efficiently

form a Captive that can serve as the risk assumption entity for the Group Captive Program. This Group Captive entity is functional in weeks with no upfront investment in professional expenses or surplus.

Once the Captive facility is formed and the program's service providers are engaged, the Group Captive members purchase insurance the same way they do in the standard market; they send in their underwriting information, receive a quote and bind coverage. The execution of a contract with the Group Captive facility that is commonly referred to as a participation agreement follows along with a contribution of collateral before the insurer issues the medical expense policy coverage.

The Group Captive then functions like any other insurance company and reports to its owners its financial performance with premium earnings, loss payments, expenses and investment performance activity. Through retaining risk in the Captive and the application of innovative program services designed to prevent and reduce medical expenses, the Group Captive members may experience underwriting outcomes for their Captive reinsurer that enable a return of underwriting and investment income. Without the Captive participation by the insured members, these positive underwriting outcomes would have inured to the benefit of the insurance company alone. The return of underwriting and investment income obviously reduces the insured members cost of insuring their medical expenses and offers a cost advantage over traditional medical expense insurance coverage.

Why Does It Work?

A Group Captive delivers better results to participating members for several reasons. First, by retaining risk in the Captive facility, the insured members are able to capture a portion of the underwriting and investment income a traditional insurance company typically retains. The profit and overhead component of the standard insurance transaction can be anywhere from ten to thirty percent of the premium dollar paid by an insured. When these profit and overhead dollars are captured by the insured members, their overall cost of medical expense insurance is reduced.

Group Captive members also realize results that surpass their traditional insurance experience because of the shared incentive the members have with each other and the other risk takers. Unlike the traditional insurance transaction where you pay your premium and losses are largely irrelevant to you, when a Group Captive member contributes capital to a risk bearing enterprise that is dependent on the Group's loss experience, the incentive is for the member to police its claim activity more diligently. This is the "Skin in the Game" concept. Reduced expenses such as reinsurance are also realized by the Group Captive members who exhibit claim experience more attractive than the overall medical expense insurance marketplace. Shared incentives create shared expense benefits.

Of course, the environment of loss prevention is also stimulated as the Group Captive members search for the most efficient way to deliver Rx, purchase medical procedures and deliver wellness ideas or practices. It is not surprising that many of the best in class health care solutions being advocated by the experts in the national debate have their origin in the Captive or self insurance marketplace. When a new method to mitigate the health risk of patients can be correlated to a premium dollar savings, it is not surprising the members of Group Captives have a higher commitment level to better health outcomes than the typical insurance buyer. Creativity, commitment, oversight and consistency all contribute to the Group Captive offering the best overall price and solution to escalating medical expense costs.

What Can Go Wrong?

The devil is in the details. The benefits a Medical Expense Group Captive offers can be lost when details such as provider networks, excess reinsurance terms, transaction fees and wellness programs are ignored or mishandled. Should the Group Captive also not utilize the efficiencies offered by established turnkey Captive facilities, the organizational costs required to establish a regulatory adequate Captive facility can take years to recover. Experimenting with a new wellness program can deliver returns with little downside, but trying a new service provider without the knowledge and experience with reinsurance treaties and underwriting could contribute to increased costs for the Group Captive members.

Conclusion

A Group Captive approach to insuring your medical expense risk is one of the many strategies available to confront escalating medical costs head on. Take control by not only improving your approach to how health care is delivered to your organization, but how the insurance dollar is spent and returned. When the best possible cost containment services are combined with an efficiently built risk retention facility, the conclusion that a Medical Expense Group Captive offers the lowest cost solution for insuring your health care is evident.

Who is Roundstone?

Roundstone Management, Ltd. ("Roundstone") based in Westlake, Ohio is an insurance organization focused on the development, underwriting and servicing of alternative risk products, including captives, rent-a-captives and specialty insurance programs. Roundstone offers intermediaries and buyers an expertise in the captive marketplace with an unbundled services approach utilizing the facilities of Roundstone Insurance, Ltd., a class III Bermuda reinsurer registered as a segregated account company.

Michael A. Schroeder is President of the Roundstone organization. Mike offers twenty years of insurance industry management experience with responsibilities in the captive market, self insurance pools and trusts, publicly held insurance companies and the regulatory environment.

Prior to joining Roundstone, Mike served as National Interstate Corporation's (NASDAQ: NATL) Vice President and General Counsel during the Company's transition from a closely held mono-line insurer to a NASDAQ listed fifty state AM Best A rated insurance holding company. While at NATL, Mike developed numerous alternative risk structures, including group captives, single parent captives and purchasing groups.

Prior to his position at NATL, Mike provided restructuring and transactional consultation services to firms in the insurance industry, held senior level executive positions with a publicly held worker's compensation insurer, a non-standard auto insurer and served as an associate in the insurance defense department of a Cleveland law firm.

Mr. Schroeder received his Juris Doctorate from The Ohio State University College of Law, and received his Bachelor of Science degree in Business Management from Tulane University. Bermuda

[Home](#) | [About us](#) | [Articles](#) | [Blog](#) | [Interviews](#) | [Past Issues](#) | [Advertise](#) | [Conference](#) | [Contact us](#)
Copyright © 2009-2012 Self Insurance Magazine All rights reserved. Terms of Services | [website designing & development by EwebCraft](#)

