Single Parent Captives

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MSL Captive Solutions is a specialist underwriting company that focuses on the insurance of medical stop loss programs in captive insurance companies. These programs can include group captive structures supporting middle market employers, but also single parent captives owned by larger employers, typically with 1,000 or more employees.

Why Medical Stop Loss for a Single Parent

For most employers, medical stop loss will not generate enough premium to support the formation of a standalone single parent captive. However it can be a very attractive coverage to add to an existing captive. Renting a cell in an existing facility rather than forming a standalone captive can reduce the minimum size required to support the medical stop loss program, but it is still most often seen as a complement to property & casualty lines of coverage in a single parent.

1. Risk Diversification

Medical stop loss is typically added to a captive that has been established for other lines of coverage, particularly property & casualty coverages. As a short-tail line of business, medical stop loss provides balance to longer tail casualty coverages. It is also independent of these lines providing greater diversification of the risk insured in the captive providing more stability and a more efficient use of capital.

2. Formalize Stop Loss Funding

Converting segments of retained risk into layers of MSL coverage and formalizing the funding of those layers in the form of regular monthly premiums is more efficient from a budgeting and accounting perspective than simply paying claims out of general assets or funding through a trust.

3. Establish and Build Reserves

Funding through a captive requires the establishment of reserves to pay claims. Building reserves and retaining surplus allows the captive to retain more risk and further distance the employer from market volatility.

4. Centralize Risk Financing

Combining the financing of medical stop loss in a captive alongside other risks can provide a consistent approach to financing an organization's risks. Similar metrics can be used in determining risk tolerance for the organization with a more comprehensive view of its overall risk profile. A captive can be used as a central point or clearing house for all claims. Including medical stop loss claims allows for consistent risk analytics as well as co-ordinating claims management, for example between workers compensation and employee healthcare claims.

5. Deploy Existing Captive Surplus

Property & casualty captives are not a new phenomenon. Many organizations have mature captives that have built up surplus over a number of years. Strategically, mature captives are looking at other ways to use surplus capital to add value to their parent organizations or to return funds. This surplus can be used to cover the volatility associated with the organization's medical stop loss program by including it within the captive.

Program Structures

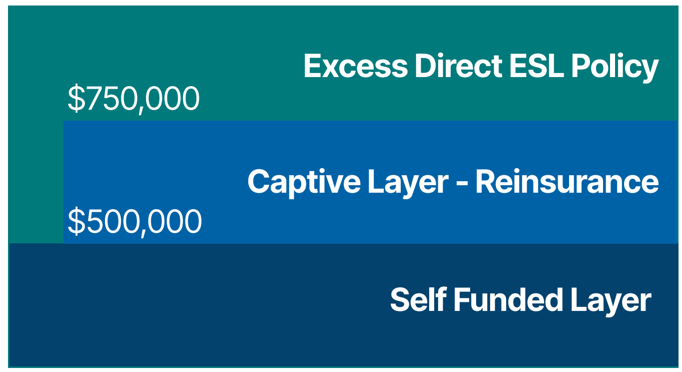
Medical stop loss is not a mandated coverage, which provide more flexibility in how captive programs can be structured. There are three typical structures: carrier fronted, excess stop loss or captive fronted.

Carrier Fronted Captive Program

The employer purchases a traditional MSL policy for the full amount of risk, e.g., Unlimited excess of $500K. The MSL carrier then cedes a layer of the ESL policy risk to the captive, e.g., $250K excess of $500K.

This structure is similar to the group captive structure and requires collateral as the captive is an unauthorized reinsurer to the carrier, who would have a schedule F penalty without the collateral. There will also be fronting fees to the carrier.

The approach provides consistent ESL policy terms in both layers of the stop loss coverage.

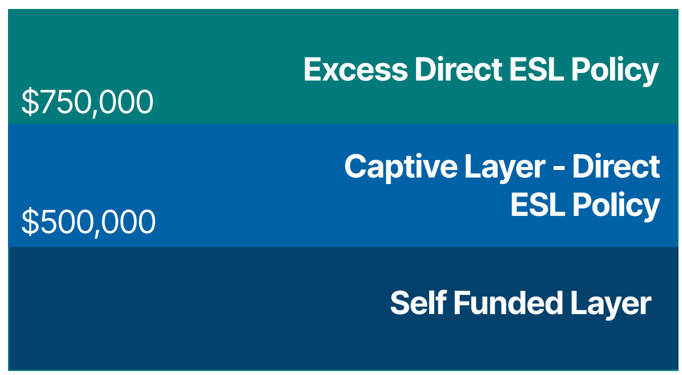


Excess Stop Loss Insurance

The captive directly issues a policy for only the amount of its retained risk layer, e.g., $250K excess of $500K. The captive (or employer) then purchases a traditional employer stop loss policy for the remainder of the risk provided by the self-funded plan, e.g., Unlimited excess of $750K.

There is no reinsurance between the carrier and the captive. No collateral is required by the carrier to support the structure and there are no fees or premium taxes payable on the captive layer. Capital will still be required by the captive regulator to support the captive's underwriting position.

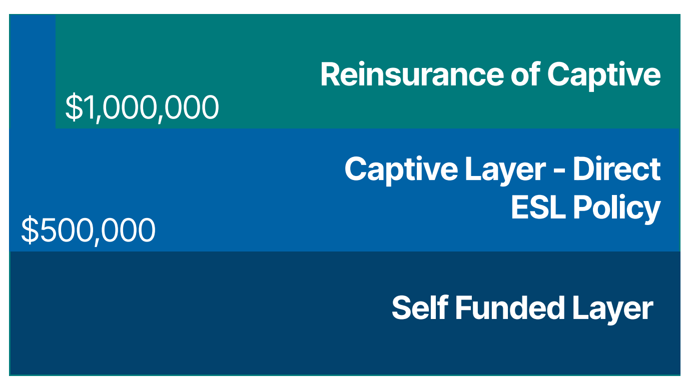
One drawback is the potential for inconsistencies in policy wordings between the layers. This structure is the most common.



Fronted Captive Program

The captive direct issues a policy for the entire coverage amount, e.g., Unlimited excess of $500,000. The captive then transfers the layer of risk that it does not wish to retain to a reinsurer, e.g., Unlimited excess of $1M.

Provides consistent ESL policy terms in both layers of the stop loss coverage. As the captive issues the policy directly to the employer and reinsures to a commercial carrier there should be no collateral requirement to the carrier. Capital will still be required by the captive regulator to cover the risk in the captive layer.



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Services

MGU Underwriting

MSL Captive Solutions expert team maintains underwriting relationships with some of the industry's leading medical stop loss carriers. Our experience, expertise and objectivity maximize our ability to analyze risk and develop the most appropriate captive structure.

- *Comprehensive Risk Assessment:* Our expert underwriting and medical risk management resources will evaluate the client's historical and current plan data to determine the most appropriate retentions, pricing and funding levels for both the captive risk layer and the MSL coverage.
- *Competitive, Highly Rated Capacity:* Our partner carriers are rated "A (Excellent)" or higher by A.M. Best and provide our ability to deliver highly competitive co tract enhancements and coverage terms.
- *Flexible Captive Structures:* MSL Captive Solutions can accommodate carrier fronted, captive fronted or excess stop loss structures. Reinsurance can be structured on either an excess or proportional (quota share) basis.
- *Broad industry appetite:* We can accommodate most industry classifications. Preferred, but not exclusive, sectors include the following: Healthcare, Education (Public / Private), Financial Services, Senior Living, Transportation, Manufacturing, and Wholesale/ Retail Distribution.

Case Management

MSL Captives uses in-house nursing resources to provide case management co-ordination and navigation services for all single parent captive clients. These services are provided in conjunction with case management services provided by the employer's TPA and specialist vendors on the program. We also co-ordinate with case management and specialist services provided by or available through our carrier partners.

Services include:

- Review of all 50% notices of stop loss claims for treatment program
- Discussions and co-ordination with TPA, carrier and vendor for agreed course of treatment
- Introduction and referral to specialists outside of program vendors as needed, i.e. filling gaps for treatment options
- Monitoring of claims for on-going treatment and case management options in conjunction with program vendors
- Maintaining on-going relationships with specialist medical vendors for use on client programs.

The goal of our case management services is to ensure that all medical stop loss claimants are receiving quality treatment at an affordable price to manage the employer's total cost of care. These services are provided as a value-added service within our standard MGU fees and premium rates.

Captive Layer Management

As a single-parent captive is recognized and licensed as an insurance company by its domicile, it will be expected to operate as an insurance company with the appropriate underwriting, claims and controls. For a captive underwriting directly, it will be required to provide these insurance company activities itself rather than really on the fronting company. MSL Captive Solutions can provide a full suite of insurance company operations in the captive layer to satisfy these requirements.

Implementing a Single Parent Captive Program

Medical stop loss is most often added as a complementary line of coverage to existing single parent captives. The program size is usually insufficient to support the formation of a standalone captive. MSL Captives add medical stop loss to a captive or provide quotes for medical stop loss programs already underwritten in a single parent captive.

Adding MSL to a Captive

MSL Captives works with its sister company, Strategic Risk Solutions, to perform the feasibility study to add medical stop loss as a line of coverage to an existing captive. This process includes:

- Actuarial analysis of claims history to develop actuarial driven pricing for the captive participation
- Development of financial proformas including comparison of the captive program to traditional stop loss
- Preparation of the business plan change to add medical stop loss to the captive
- Underwriting the medical stop loss coverage with options for carrier fronted, captive fronted or straight excess stop loss structures.

Existing Single Parent Captive Programs

MSL Captives can provide competitive medical stop loss quotes for captives currently underwriting medical stop loss. Programs can be structured as:

- Straight excess above the captive layer,
- Fronted with a leading stop loss carrier
- Fronted by the captive and reinsured to a commercial reinsurer

Profile

- 1,000 employee lives
- Minimum MSL Premium: $1,000,000
- A commitment to risk control initiatives

Contact

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