Medical stop loss captives on the rise

Against a backdrop of rising costs in the commercial health insurance market, companies across the US are increasingly looking to self-fund their employee health insurance plans through medical stop loss captives. *US Captive* finds out how much the sector is growing.

Medical stop loss captives are quickly becoming the go-to solution for employers looking to take control of their healthcare spend. Funding medical stop loss in a captive allows employers who self-fund their benefit plan to add a layer of protection from excessively high individual or aggregate health claims.

One of the key drivers in the growth of this space has been the rising costs associated with providing healthcare coverage.

According to the Centers for Medicare & Medicaid Services' *National Health Expenditure Projections 2017–2026*, US national health expenditure is expected to increase by 5.3 percent in 2018. The government agency says drivers of this include the increased prices of healthcare goods and services.

Joe Parrilli, vice president at captive insurance adviser Captive Resources, says a number of factors contribute to the increases in the cost of health insurance, including the cost of drugs, the cost of care, and an aging workforce—all of which, he says, are driving growth in the medical stop loss market.

"The out of control costs to health insurance is one of the main drivers. The increase in pharmacy costs within their individual spend continues to go up. Groups are always looking for ways to gain control of that cost," Parrilli says.

Employers looking at which programme structure best suits their size and risk appetite have a number of options available to them, including single parent captives (where they have complete control over the programme); group captives (suitable for employers with smaller populations); and protected cells (for groups wanting to use an existing captive facility rather than form their own).

Single parent captives

While single parent captives have typically covered property and casualty risks of their parent companies, many of them continue to seriously consider healthcare, whether that be through employee benefits or medical stop loss, according to Michael Serricchio, Americas sales leader and managing director in Marsh's captive advisory group.

"The reason we are seeing the increase is that mature captives are no longer looking just at property/casualty, they're expanding their philosophy to other stakeholders within the organisation.

Medical stop loss is one of those things that is relatively easy to do," says Serricchio.

In Marsh's *Captive Landscape Report 2018*, there was a 14.3 percent increase in medical stop loss being written in Marsh-managed captives from 2016 to 2017. Marsh has around 1,200 captives under management.

In the same report, there was a 550 percent increase in multinational employee benefit coverages in captives over the last four to five years.

For US parent companies, single parent captives continue to be the most prevalent captive vehicle, the reports shows, making up 79 percent of the captives with US parent companies, followed by 7.4 percent for special purpose vehicles, 4.4 percent for group captives, 4.2 percent for cell captives, and 5.1 percent for risk retention groups.

Serricchio considers medical stop loss to be one of the fastest growing areas in captives, along with cyber.

"It's very relevant, it's topical. And there are some real cost savings to doing medical stop loss in a captive," he says.

"The healthcare industry, with all the mergers and consolidation, is constantly looking for efficiencies with their risk programmes, and also cost savings under any stone that they can find it. If they can increase their medical malpractice retention and fund that in a captive and save on the commercial premium, they're going to do that."

Healthcare organisations tend to have a lot of staff, and Serricchio notes that medical insurance will probably be one of their largest spends.

"If they can shave off 5 or 10 percent in savings, that's a very meaningful amount of money to these organisations, which are mostly non-profit," he adds.

This year, Marsh also took a sample of 300 clients and asked them what some of the value drivers were for their decision to own a captive, with 42 percent saying that access to reinsurance is one of the main incentives.

In the same survey, another 42 percent said they were considering employee benefits or that they were already doing employee benefits.

"There's a decent amount of the population either doing it, or thinking about doing it," says Serricchio. "That's going to pave the way for what will happen over the next five years, which is more non-traditional lines of business in captives, for example medical stop loss, group life, long-term disability, and even voluntary employee benefits.

"We are seeing a huge increase in the number of enquiries for voluntary employee benefits, things such as critical illness, accident insurance, hospital indemnity."

Group captives

The overall growth in the medical stop loss captive market is hard to measure, especially in the group captives space, according to Phillip Giles, vice president–sales & marketing, accident & health, QBE North America.

Individual brokers can provide statistics on their own captives, but it does not give the full picture of this industry. When domiciles publish their latest statistics on captives formations, their figures may show fairly flat growth, but a group captive gaining new members would go unreported.

While the market is hard to measure, Giles believes it has been quite substantial based on QBE's increased level of activity in this space.

"QBE North America has experienced significant growth in the number of both group and single parent captives over the past five years," says Giles. "The number of enquiries and requests for proposals (RFPs) that we respond to has especially increased at an exponentially high rate over the past several years."

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>
> *Michael Serricchio, Marsh*

On the single parent side, Giles suggests it is difficult to measure overall growth in this market as very few individual captives are formed specifically for medical stop loss.

"The medical stop loss is typically added as a new line of business to existing single parent captives which makes both identification and quantification very difficult," he explains.

With specific regard to the group captives market, Giles says there has been a huge increase in the number of existing mid-sized self-insurers (250 to 1,000 people) participating in group captives.

"Much of this growth has been from large heterogeneous 'open market' programmes, primarily sponsored by specialty programme managers or managing general underwriters.

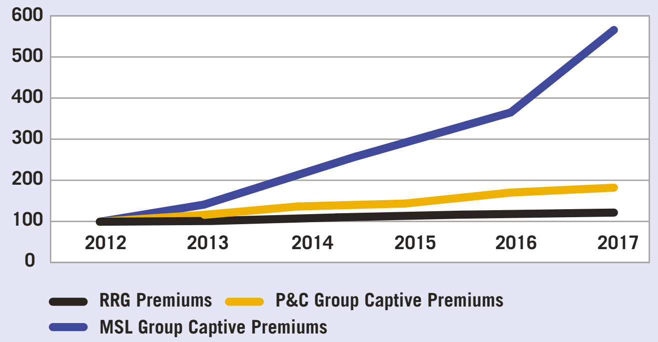
"We are also experiencing an increase in group captives that cater to very specific (homogenous) industry verticals such as hospitals/healthcare, higher education, public/private schools, and even emerging market segments like craft breweries," he says.

Giles suggests that an overall growth measurement for group captives should be based on the number of individually participating employees and corresponding medical stop loss premium volume written within a group captive, as opposed to simply going by the number of separate or distinct group captives.

"It's very difficult to quantify, but growth within group captive participation, and the number of group captives, has been substantial," says Giles.

"Two years ago, the Self Insurance Institute of America (SIIA) sought to conduct a market survey to measure the size of the medical stop loss group captives market, but not enough carriers were willing to share the data necessary to deliver accurate results. Regardless of its current measurability, I consider this to be one of the fastest growing segments within the captive insurance industry."

Figure 1: Group captive growth by premiums 2012–2017



Note: Premiums in 2012 set to 100 to standardise the data

Premium growth

Captives manager Strategic Risk Solutions' (SRS) annual market update webinar looked at the growth in gross written premiums in three group captive sectors.

"We looked at premiums, as the industry typically reports on numbers of captives but that isn't necessarily a true reflection of the growth or lack of growth as it ignores what is happening with the existing captives," explains Andrew Berry, SRS chief operating officer and managing director.

As shown in Figure 1, SRS created an index of premium growth over the past five years with premiums in 2012 set to 100 to standardise the data. For its medical stop loss clients, SRS used gross written premiums from eight of its group clients, of which one includes 10 separate medical stop loss cells.

As the data show, the number of premiums written in medical stop loss group captives under SRS management increased more than five-fold in this five-year period.

Berry suggests that each of these sectors—risk retention groups (RRGs), property and casualty group captives, and medical stop loss group captives—are affected by different market forces impacting growth.

"Groups generally are more influenced by competition with the commercial market than single parent captives, so it is somewhat surprising that the property and casualty group captives continue to grow as we have been in an extended soft market for these lines," says Berry.

For small to mid-size employers looking to gain some control over their healthcare costs, using group captives to fund a portion of medical stop loss is one of the few options available.

"The medical stop loss group captive structure is gaining acceptance and traction in terms of the number of new captives being formed, and also growth within the existing captives due to the implementation of forward-thinking cost-containment strategies and, in turn, programme success," says Berry. "The result is some explosive growth in the sector, which appears to be continuing into 2018." ■