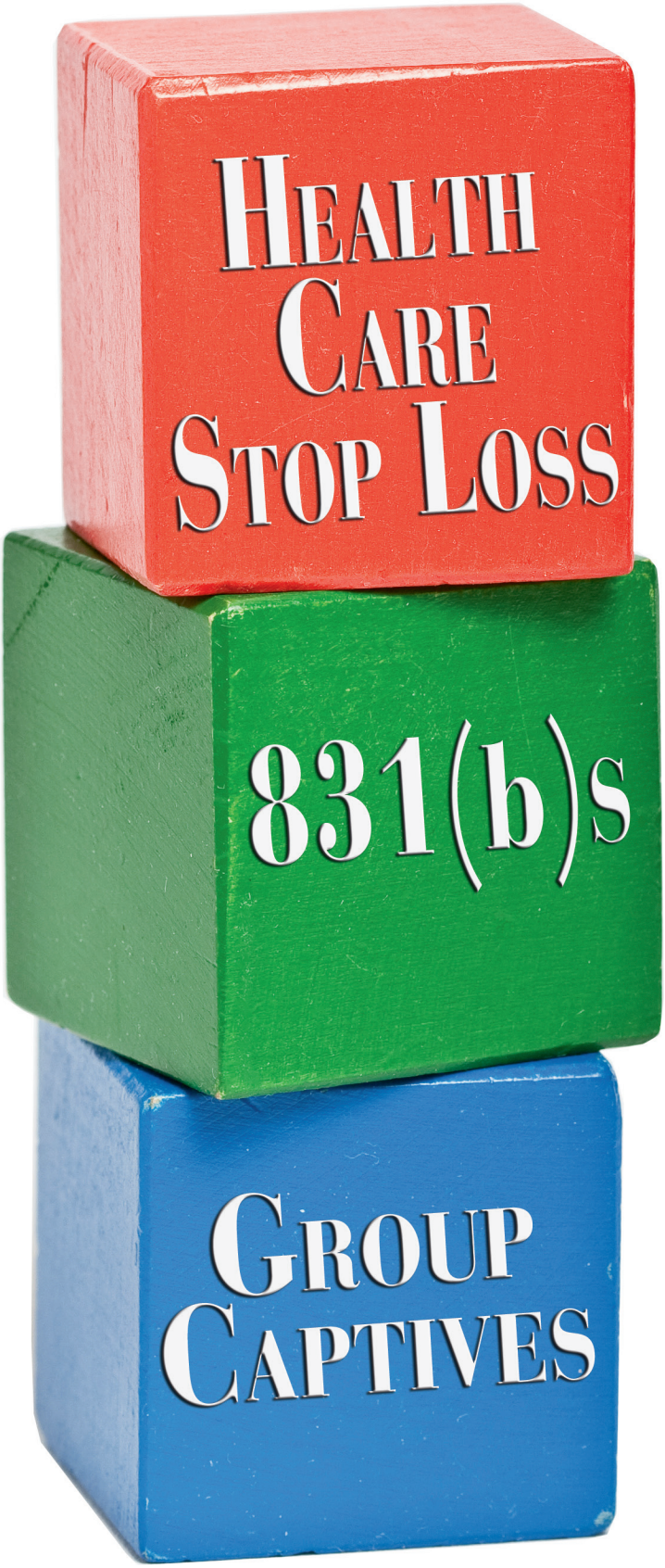
ART MARKET GETS CREATIVE



Captive Resources supplements its group captives with stop-loss health program & micro-captives

By Michael J. Moody, MBA, ARM

While the alternative risk transfer (ART) market has not been unscathed by the recession and a protracted economic recovery, it's becoming more and more difficult to find any signs of ill effects. On the heels of one of the highest catastrophic loss years on record, the ART market appears to have weathered the storm well, as interest has remained strong and is once again on the rise. One factor generating this increased interest is the broader range of risk-financing products available, as more creativity comes to the market. For example, the surge in popularity of capital markets-based products such as Insurance Linked Securities (ILS) in 2012 perhaps indicates a greater acceptance and willingness to more readily incorporate more creative strategies into risk-financing programs.

But by far the most active segment remains captive insurance companies. Just as in the broader ART market, captives are being utilized in creative new ways. Among the more recent innovations are stop-loss programs for self-funded health plans and 831 (b) captives.

New captive opportunities

Mid-sized agents and brokers continue to search for ways to incorporate captives into their clients' risk-financing programs. In that regard, Captive Resources, LLC (CRI) has been providing member-owned group captive solutions for mid-sized companies for more than 25 years. Over that period, CRI has developed more than 27 captives with a combined membership of more than 2,500 companies. Recently, CRI's captives have exceeded $1 billion in total premium volume. Over the past few years, CRI has also expanded into new areas in order to meet the varied needs of its clients.

Health Care Stop-loss Coverage

As health care costs continue to rise, self-funding this coverage is gaining greater acceptance from employers of all sizes. One of the critical aspects of developing a self-funded program is the excess stop-loss coverage. However, "Once an employer pays the annual premium on a stop-loss policy, the premiums are gone," notes Doug Hayden, senior vice president at CRI. He points out that CRI's excess stop-loss captive, Well Health Insurance Ltd., allows employers an opportunity to have a portion of unused

premium returned to them—a risk/reward approach similar to CRI's casualty captives.

One of the major advantages to the Well Health approach is that it offers members outstanding flexibility to tailor their specific health benefit programs to their unique requirements. Among other things, members have the ability to:

- Maintain their current plan design, if desired
- Choose the specific stop-loss limit that best fits their needs ($25,000 to $150,000)
- Obtain specific excess insurance that provides a captive dividend potential
- Obtain aggregate stop-loss protection, if desired
- Access local, regional, and national PPO networks
- Maintain the relationship with their current TPA, if desired
- Have access to a diverse array of exceptional wellness initiatives.

Well Health's program is designed for self-funded employers with between 75 and 1,000 employees. The whole approach allows employers to maintain their existing structure, Hayden explains. "We are hands off . . . leaving the structure alone when it comes to the plan design. If the employer has a good relationship with its TPA, or any other service provider for that matter, we do not want to change that. The only thing that changes is the stop-loss carrier, and that is transparent to the employees."

The one area of a Well Health member's program that may also change—for the better—is Wellness. All of CRI's casualty captives have one thing in common—a strong commitment to loss control. "Well Health will be no different," says Hayden. "Loss control and wellness programs will be a critical success factor since they help employers rein in [their employees'] health care costs." He also notes, "We realize that employers have a vested interest in maintaining their employees' health, and Well Health responds to this by providing access to extensive Wellness programs that encourage and support healthy life styles."

Operating for just over one year, Well Health already has 21 members that were written by 16 different brokers.

831 Captives

A number of years ago, the Internal Revenue Service (IRS) implemented a new program that encourages the formation of small insurance companies. The Section of the IRS code that includes the provision is Section 831 (b), and it provides that insurance companies that write less than $1.2 million in annual premiums are allowed to retain underwriting income tax free. Since the provision has become law, Section 831 (b) captives have been used, and in some cases abused, in a wide variety of situations. One of the most problematic situations occurs when the captive is used solely as a wealth management tool. Recent years have seen a rapid growth in this application, which has, unfortunately, created the wrong impression about 831 (b) captives.

However, CRI has studied the application of the Section 831 (b) legislation and has developed a viable approach, whereby these captives can play a very practical and specific role within a broader risk-financing program. Ernie Achtien, CFO at CRI, indicates that, generally, when properly structured, 831 (b)s, or micro-captives, have a legitimate use. He says, "Group captives are most commonly designed to cover traditional exposures, and the 831 (b)s can conceivably cover everything else." He gives the example of those companies that have coastal property and are required to maintain significant retentions in their property programs. A micro-captive is perfect for funding this type of exposure.

Tom Ullrich, executive vice president, points out, "CRI has been aware of these captives for quite some time, and our brokers have been calling us about them as well. We took our time researching the opportunity available via a Section 831 (b) election." He says that it took time to assemble experts in this specific discipline that CRI wanted to partner with in order to fully round out its offering. Currently, CRI is conducting Webinars and presentations to help educate its brokers and prospects.

While micro-captives represent a departure from CRI's normal group captive approach, they have generated significant interest in the captive market. In essence, the 831 (b) captive is a single-parent captive with a U.S. domicile. CRI has begun working with several domiciles, most notably Delaware, Hawaii and Kentucky.

Achtien points out that 831 (b) prospects are reviewed on a case-by-case basis. If all parties agree that it is advantageous to a client's risk-financing program, they will proceed. But he notes, "It must fill a need, including a determination of 'supportable premiums' and a specific business purpose."

Assuming that is the case, Ullrich believes that the addition of the 831 (b) micro-captive to CRI's portfolio of risk-financing options will only further strengthen its position in the marketplace. "We are working towards becoming the leader in this space, just as we are in the group captive arena," he states.

Summary

The ART market continues to evolve. Whether it's captives, insurance-linked securities or CAT bonds, buyers continue to seek out risk-financing products that afford them better control of their insurance costs. CRI remains abreast of market changes and demands and actively develops solutions to help its clients address those changes. CRI also recognizes the extent of interest in the captive market, and for that reason, both the 831 (b) program and Well Health Insurance Ltd. are open market products available to any broker. This allows independent, mid-sized agents and brokers an opportunity to differentiate themselves by having state-of-the-art alternative risk-financing products, provided by experienced service providers, available for their clients and prospects. CRI has focused on its clients' needs, carefully assessed market demand and current offerings, and has subsequently developed its own creative and thoughtful approach to these two popular risk-financing options. ■

Reprinted from the October 2012 issue of **Rough Notes** Magazine