Single-Parent Captives

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MSL Captive Solutions is a specialist underwriting company that focuses on the insurance of medical stop loss (MSL) programs in captive insurance companies. These programs can include group captive structures supporting middle market employers, but they can also encompass 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, MSL will not generate enough premium to support the formation of a stand-alone, single-parent captive. However, MSL can be a very attractive coverage to add to an existing captive. Renting a cell in an existing facility, rather than forming a stand-alone captive, can reduce the minimum size required to support the MSL program, but this option is still most often seen as a complement to property and casualty (P&C) lines of coverage in a single parent.

1. Diversify Risk

MSL is typically added to a captive that's been established for other lines of coverage, particularly P&C coverages. As a short-tail line of business, MSL provides a counterweight to longer-tail casualty coverages. MSL is also independent of these lines, providing greater diversification of the risk insured in the captive, as well as 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 & 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 MSL in a captive alongside other risks can provide a consistent approach to financing an organization's overall risk. Similar metrics can be used in determining risk tolerance for the organization with a more comprehensive view of its risk profile. A captive can be used as a central point or clearinghouse for all claims. Including MSL claims allows for consistent risk analytics as well as the coordination of claims management (for example: coordinating between workers' compensation and employee healthcare claims).

5. Deploy Existing Captive Surplus

P&C captives are not a new phenomenon. Many organizations have mature captives that have built up surplus over many years. Strategically, mature captives typically look at other ways to leverage 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 MSL program by including it within the captive.

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Program Structures

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

Carrier-Fronted Captive Program

An example of a carrier-fronted program might be:

The employer purchases a traditional MSL policy for the full amount of risk (e.g., unlimited excess of $500,000). The MSL carrier then cedes a layer of the ESL policy risk to the captive (e.g., $250,000 excess of $500,000).

This structure is similar to the group captive structure. It requires collateral as the captive serves as an unauthorized reinsurer to the carrier (who would incur a schedule F penalty without said collateral). In such cases, carriers will also need to pay fronting fees.

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

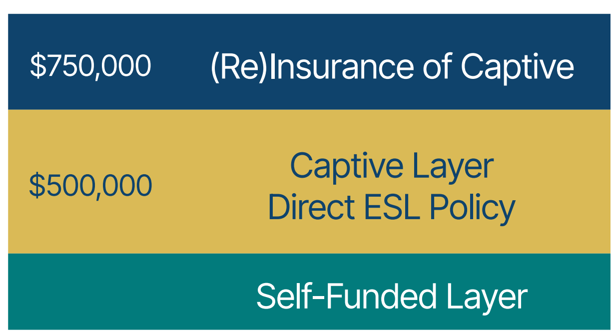
Excess Stop Loss Insurance

An example of excess stop loss insurance might be:

The captive directly issues a policy solely for the amount of its retained risk layer (e.g., $250,000 excess of $500,000). The captive (or employer) then purchases a traditional ESL policy for the remainder of the risk provided by the self-funded plan (e.g., unlimited excess of $750,000).

This structure is the most common. There's 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, however. (One drawback here is the potential for inconsistencies in policy wording between the layers.)

Fronted Captive Program



An example of a fronted captive program might be:

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 it does not wish to retain to a reinsurer (e.g., unlimited excess of $1M).

This program 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. However, capital will still be required by the captive regulator to cover the risk in the captive layer.

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Services

MGU Underwriting

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

We offer:

- **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 as well as the best 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. These partnerships allow us to deliver highly competitive contract 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.

Captive Layer Management

Since 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. A captive underwriting directly will be required to provide these insurance company activities itself rather than rely on the fronting company. MSL Captive Solutions can provide a full suite of insurance company operations in the captive layer to satisfy the following requirements:

- **Underwriting:** Our expert underwriting team will price the layer of MSL coverage assumed as insurance by the captive. This will ensure appropriate funding for the captive layer and satisfy applicable regulatory compliance.
- **Policy Manuscript:** A direct-issuing captive is required to issue a formal MSL policy. We will manuscript the policy to be issued by the captive to ensure it mirrors the employer's plan document. This will maximize continuity between coverage documents and reduce coverage conflicts.
- **Medical Review:** Our medical review resources provide oversight of all claims that could breach the captive's retained risk layer. Our proactive involvement can significantly reduce the severity of claims and provide an effective safeguard for the captive.
- **Reserve Estimates:** We will recommend appropriate reserves for known claimants within the captive's retained risk layers. We'll also analyze data to identify claims trends and cost drivers. (Appropriate reserve management is essential to operational and capitalization planning, as well as efficient surplus management.)
- **Reimbursement Audit:** MSL Captive Solutions will review all captive-layer claims to determine appropriateness. We'll then issue a formal "Advice to Pay" to the captive and provide an "Explanation of Reimbursement" (EOR) to the captive parent. The formalization of this process ensures claims accuracy and provides essential regulatory documentation.
- **Monthly Reporting:** We'll prepare detailed monthly reporting for the captive layer. This typically includes premium detail, specific claims, potential captive claims notifications, reimbursements, recommended reserves, and loss ratios. Accurate and timely reporting is essential to the successful operation of a captive. Our comprehensive service platform will provide all the captive's stakeholders with the detailed information needed to make informed operational decisions in order to optimize the performance and effectiveness of their captive.

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Implementing a Single-Parent Captive Program

MSL is most often added as a complementary line of coverage to existing single-parent captives, as the program size is usually insufficient to support the formation of a stand-alone captive. MSL Captive Solutions adds medical stop loss to a captive or provides quotes for MSL programs already underwritten in a single-parent captive.

Adding MSL to a Captive

MSL Captive Solutions works with any insurance company manager to perform a feasibility study on adding MSL as a line of coverage to an existing captive. This process includes:

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

Existing Single-Parent Captive Programs

MSL Captive Solutions can provide competitive MSL 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: $1M
- A commitment to risk control initiatives

Contact

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