OUTLOOK OF MEDICAL STOP LOSS GROUP CAPTIVES

Jim Hoitt, of Berkley Accident and Health, discusses the rapid growth he is witnessing in medical stop loss group captives

Captive Review (CR): How long has Berkley been in this space?
Jim Hoitt (JH): Berkley Accident and Health has been in it from the beginning. We were a pioneer – we launched our first programme about ten years ago and have grown to be one of the largest providers of medical stop loss group captives. Today, we have one of the most mature blocks of business, so we've been able to learn and adapt our approach over time. Through the years, we've been able to perfect our process for developing, launching and managing successful group captive programmes.

CR: What has the growth been like?
JH: It's been remarkable. We've seen interest grow fivefold in the past five years. The number of requests and enquiries we receive has skyrocketed, especially in the past two to three years. Although there are no market surveys to measure the size of the stop loss group captive marketplace, I can tell you by personal experience, that it is booming. We estimate it is somewhere in the ballpark of $500m in medical stop loss gross premium, which represents roughly somewhere around $2.5bn in total medical spend.

Today we partner with over 20 unique captive programmes, ranging in size, structure, domicile and strategy. We anticipate the total programmes that reinsure our stop loss policies will double again in the next two years.

Jim Hoitt

Jim Hoitt is an accomplished executive in the self-funded industry with over 20 years of experience. He is the senior vice president of captives at Berkley Accident and Health, where he directs all of Berkley's efforts related to group captive products. Hoitt has a diverse background including managing national distribution and marketing teams, as well as underwriting and third party medical administration.

CR: What has fuelled that growth?
JH: I believe market for stop loss group captives has grown because of a combination of internal and external factors. Internally, group captives deliver three main benefits to employers:

- **Control** – employers with self-funded plans gain control over their health benefits, so they can tailor coverage and services to meet the needs of their workforce.
- **Transparency** – employers with self-funded plans gain access to their claims data and even more reporting and analysis when they join a group captive programme.
- **Opportunity** – employers have the opportunity to receive a financial distribution if the programme's claims and expenses are lower than expected, which can decrease healthcare costs over the long term.

Because these internal benefits match up perfectly with external market forces in the US, the group captive market has seen extraordinary interest. The external backdrop includes:

- **Continued rising medical costs** – despite hopes that the Affordable Care Act (ACA) would slow medical inflation, hospital and drug costs continue to push higher every year.
- **Increased regulatory complexity** – certain provisions in the ACA, such as the removal of lifetime benefit maximums, have raised the cost and complexity of providing employee health benefits for employers. As a result, more and more firms have turned to self-funding as an option. Today, more than 61% of US covered workers are in a self-funded plan, up from 49% in 2000, according to the Kaiser Family Foundation/HRET 2016 Employer Health Benefits Survey

When small- and mid-size employers convert to self-funding, they need medical stop loss insurance, which can be pricey when an employer is going it alone. A group captive can act as a shock absorber to mitigate some of the risks typically excluded by

traditional stop loss, such as individuals with large, ongoing medical claims.

I believe the growth has been a direct result of external forces leading employers to search for a better solution, and group captives delivering on it. At the same time, employee benefit brokers and consultants are really coming up to speed on alternative financing and becoming fluent in group captives. At the same time, programmes are beginning to show proven, favourable results, including reduced trend and lower-than-expected claim frequency and severity. We believe these positive results are due in large part to the higher engagement and aggressive risk management strategies used by the member employers within the programmes.

CR: What are the challenges that face this industry?

JH: One of the core threats to medical stop loss is state regulation. If states regulate or restrict access to stop loss by increasing the required retention limits, it will create hurdles for smaller employers. Some states see self-funding as a threat to the health of their state marketplace, and therefore by limiting medical stop loss, they limit small employers' ability to self-fund and increase the number of potential employees in the state-run pool.

> "This is truly the golden age of innovation in the employer health risk management space"

Another challenge is the number of new entrants to the medical stop loss group captive space. The exceptional growth has attracted a number of new providers, many of whom are not very experienced. There are certain important protocols and relationships that the medical stop loss group captive must adhere to, a level of integrity that we have worked hard to maintain. We worry that new entrants will blur those lines or push boundaries that will create backlash for current programmes. It requires specialised expertise in legal, regulatory, actuarial, underwriting, and programme management. Where a captive is domiciled can add another layer of complexity.

Going forward, it will be important for advisers and their clients to select a quality programme with experienced leadership at the helm.

CR: What does the future look like?

JH: Overall, I think the continuing regulatory uncertainty with recent healthcare reforms is good for the self-funded market in general. Employers are seeking a level of confidence and want to feel like they're in control of their health benefits.

I also think there is a coming revolution with PPO networks in the US. I believe the market is shifting towards value-based pricing, grounded on more reasonable provider reimbursement rates. Berkley Accident and Health is already seeing this shift among employers. We launched a medical stop loss group captive programme two years ago specifically for employers with reference-based pricing plans, and it has been very successful. It is one of our fastest-growing programmes.

This is truly the golden age of innovation in the employer health risk management space. There are some incredible new approaches to cost and care management available to employers, and the captive participation is the perfect marriage to those types of strategic investments.

I believe the future is bright for stop loss group captives, as more employers and insurance professionals come up the learning curve. These programmes are no longer on the bleeding edge, but have entered the mainstream, with much more education and information available to the general public.