GROUP CAPTIVES AS INNOVATION INCUBATORS

Jim Hoitt of Berkley Accident and Health extols the virtues of group captives and the way in which they allow smaller entities to innovate

Health care costs continue to dominate the headlines this year. To get a handle on costs, US employers are turning to creative strategies using price transparency, data analytics and new care options. Emerging trends, such as reference-based pricing, direct contracting with healthcare providers, telemedicine, and predictive modelling, are just some of the ways that companies are changing the health insurance landscape.

Another increasingly popular strategy among firms is to switch to self-funded health plans and their counterpart, a medical group captive. Last year, 61% of all US workers were covered by a self-funded health plan, according to the Kaiser Family Foundation. Self-funding – with or without a captive – allows employers to gain more control over their data, benefits, and expenses. Due to lower taxes and other fixed costs, self-funding can also mean lower costs for employers.

Employers that are not large enough to self-fund on their own often look to medical group captives. Medical (or stop loss) group captives allow smaller companies to join together with other firms to create a larger pool of employees. This creates greater scale and lower claim volatility, which can smooth results from year to year.

Group captives are just one innovative concept used by US employers today in an effort to control costs. Although not new – Berkley Accident and Health was at the forefront of the movement more than 10 years ago – they have grown more popular in recent years, as employers are more willing to 'think outside the box' of traditional health insurance.

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 its group captive products. Jim has a diverse background including managing national distribution and marketing teams, as well as underwriting and third party medical administration. Hoitt served as the vice president of sales for Berkley for five years before assuming the current role with the organisation.

Of all the emerging trends, stop loss group captives are unique in the way they can be adapted to fit around the others. Due to their unique structure, a group captive can serve as an incubator for new buyer behaviours. In fact, at our company, we have well-established programmes designed for reference-based pricing, care coordination, and more. These programmes are made up of like-minded employers who are committed to testing out new approaches to healthcare.

Captives as platforms for emerging trends

In *The Platform Revolution*[1], the authors describe the transformation of business models from a conventional 'pipeline' to a 'platform'. Pipelines as characterised by a series of linear activities – raw materials go in one end of a pipe and finished product comes out the other end. Platforms, on the other hand, are a circular ecosystem that accelerates interaction between groups. Platforms bring sellers and buyers together in high-value environments. Their chief assets are information and interactions, which in turn, is the value they create and their competitive advantage. Car rental agencies are pipelines, with a fixed number of cars. Uber is a platform for distributing unlimited transportation. Hotels are pipelines, with a predetermined number of hotels and rooms. Airbnb is a platform.

Stop loss group captives act as a platform for companies. They allow employers to come together in a safe environment to test new health risk management ideas. They gain collaboration, best practices, and experimental processes, as well as leverage in purchasing vendor solutions. If the creative strategy works to control healthcare costs, companies can reap the financial benefits, in the form of lower claim costs.

Of course, this isn't a perfect analogy. Group captives don't simply facilitate a transaction; they take risk, provide a legal captive structure, and offer captive management services to their members. However, the platform analogy is helpful in thinking about the health insurance market. The past was dominated by a few off-the-shelf pipeline options that didn't easily adapt quickly to changing market conditions. Today, captives offer funding flexibility and the opportunity to benefit financially for companies' forward-thinking, solution-focused approaches to healthcare.

Rather than innovation being reserved for large companies with deep pockets, group captives allow many more, smaller companies to test out new ideas in a supportive environment.

Real-life examples

Let's look at three emerging trends and how this is playing out:

Reference-based pricing

One of the biggest problems in healthcare today is that patients typically don't know the price of their medical care until they receive the bill. Reference-based pricing aims to solve this problem. These health plans use a Medicare or cost-based index as payment strategy, rather than relying on a PPO network. Typically, Medicare is used as a baseline, plus a reasonable profit margin, to determine how much to pay for care. This is a far more transparent strategy and has proven very effective in slowing down rising healthcare costs.

In addition to private employers, state governments are experimenting with reference based pricing. In 2016, the state of Montana started giving hospitals a 'reference price' for how much it would pay for hospital services for its employees, generally an average 234% of Medicare rates. To date, Montana has saved $15.6m over what it would have paid with its former health plan.

Berkley Accident and Health formed a stop loss group captive programme in 2015 specifically for employers using this reference-based pricing approach. Employers in the captive programme had great leeway to use their own vendor and claims administrator, but they all shared a common commitment to a reference based strategy. The programme launched with four companies, but has been very successful, growing to nearly 40 with 7,000 covered employees. This captive allows small and midsize employers to self-fund within a supportive environment and enjoy the financial benefits of their good claims experience.

Direct contracting

Another growing trend among US employers is contracting directly with healthcare providers. This strategy focuses on improving access to better-quality and lower-cost care. Employers negotiate services and pricing directly with doctors and hospitals that offer evidence-based, competitively priced care. In addition, they include financial incentives in their health plans to steer employees to those providers.

Last year, General Motors recently negotiated lower, 'direct-to-employer' costs with a Detroit-based hospital system for its 24,000 local employees, the *Detroit Free Press* reported. Other corporations such as Boeing, Whole Foods, Walmart, and most recently, Disney, have added direct contracting plans as a strategy for controlling medical costs.

Similar to reference-based pricing, direct contracting allows employers to bypass PPO network contracts that set prices for care. A group captive programme would be an ideal place for employers getting started with direct contracting to reap the financial benefits of their good experience.

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Care coordination

A third growing trend is patient support programmes, such as care coordination or health advocacy. According to PriceWatersCoopers' *Medical Cost Trend 2019*[2] report, 72% of employers surveyed in 2018 offered health advocacy services to their employee, a significant jump up from 57% in 2016. US employers have increasingly turned to high deductible health plans to keep premiums under control, but these plans may deter routine care necessary for early diagnosis or chronic conditions. Employers who use health advocacy programmes say it can increase employee satisfaction and slow medical cost trend. Some employers focus their efforts where it will have the biggest impact, such as health advocacy for complex treatments, such as oncology.

Berkley Accident and Health launched two group captive programmes this year for employers interested in care coordination and navigation. The first one, a partnership with a patient care coordination and data analytics company, has already grown to nine companies and 2,300+ covered employees. The second programme has 10 companies all using the same claim administrator and PPO network with a nurse navigation service for employees. The two programmes have differing levels of structure and flexibility, but allow employers to test out a robust care navigation service within the ecosystem of a group captive.

Summary

Innovation is about solving customer problems. It's been said that innovation is inventing something new or surprising. Others define it as bringing value to the organisation, but for a business, innovation should focus on solving customer problems and the rest will follow. Right now, the US healthcare market is ripe for innovation. Rising costs are forcing companies to explore new ideas and strategies. Price transparency, data, patient care navigation, and new payment methods are innovative ideas being tested. In addition, interest in self-funding and group captives is growing as a way to control costs.

Of course, stop loss group captives aren't right for every employer. They require certain characteristics and a level of commitment to health risk management in order to be successful. But for those interested in gaining control over their healthcare risk, they can be a smart choice.

Financially, group captives act as a shock absorber, creating a larger pool of employees and bringing needed scale and lower claim volatility that can protect small and midsize firms. But perhaps even more importantly than that – group captives can serve as idea incubators, allowing companies to test out new ideas with the support of a community of like-minded companies. It is this benefit as a dynamic ecosystem that facilitates innovation today and into the future that is group captives' real payoff.

[1]*Parker, Geoffrey; Van Alstyne, Marshall; and Choudary, Sangeet (2016) Platform Revolution: How Networked Markets Are Transforming the Economy – and How to Make Them Work for You. W.W. Norton Company.*

[2]*PriceWaterhouseCoopers (2019). Medical Cost Trend: Behind the Numbers 2020. www.pwc.com/us/medicalcosttrends.*