FINAL WORD

Phillip Giles, vice president of sales and marketing for QBE NA, discusses the strong growth he is witnessing in the captive medical stop-loss market

Can you quantify the increase in interest you are experiencing in adding medical stop-loss to captives?

QBE has been providing (re)insurance for both single-parent and group MSL captives for about 10 years. We have experienced significant growth over the past five years, coinciding with an accelerated interest in self-funding in general. The number of enquiries and requests for proposals we respond to has especially increased at a high exponential rate over the past three years.

The overall size and growth in the MSL captive market is very difficult to measure, but we do know it has been quite substantial based on our level of increased activity. Much of the difficulty in quantifying this market is that very few single parent captives are formed specifically for medical stop loss. The MSL is typically added as a new line of business to existing captives which makes identification difficult.

There has also been a notable increase in the number of existing mid-sized self-insurers (250-1000 lives) participating in group captives. Much of this growth has been from large heterogeneous 'open market' programmes, primarily sponsored by MGUs. The growth measurement for groups would be based on the number of individually participating employers and corresponding MSL premium volume written within the captive. It's difficult to quantify, but interest and resulting growth in this segment has been substantial.

The Self Insurance Association of America (SIAA) recently sought to conduct a market survey to measure the size of the MSL group captive market, however I don't believe enough providers were willing to share the data necessary to deliver credible results.

What is driving this demand?

Employer self-funding of employee benefit healthcare coverage has increased consistently since 2000. ACA has accelerated the growth in both self-funding and thus an expansion in the use of captives over the past five years.

The growth within the single parent captive segment was not in the actual number of self-funded employers, but in the self-funded employers now purchasing medical stop-loss coverage to protect against ACA's mandate for unlimited lifetime benefit maximums. Many larger employers are now formalising their retained healthcare benefit risk by converting it into MSL coverage within their existing captive and then purchasing reinsurance for the higher layers of risk that need to be transferred.

Most of the growth in new self-funded employers is coming from employers with less than 500 employees. The primary reason is that the higher you go above that number, the greater the percentage of existing self-funded employers. More than 80% of employers with over 500 lives are already self-funding, so there is little room for increased growth above that level. With this, the number of group captives catering to smaller and mid-sized employers will expand. We expect continued growth in this segment.

What are some of the main challenges involved with medical stop-loss captives?

From my perspective of having both an A&H and P&C alternative risk background, the biggest challenge is orientating risk managers and benefits managers to the intricacies of each other's respective business segment. ACA has complicated things in the employee benefits world to the point that it is usually easier to educate A&H professionals on captive structures than asking the casualty practitioners to fully understand the complexities of self-funded healthcare benefits.

I've also come across periodic market confusion over the different group captive structures, primarily as they relate to the large heterogeneous 'open market' programmes I mentioned earlier. I'll admit I'm not the biggest proponent of those programmes as pure captive solution, especially for employers under 100 lives, but they do have a place in the market as a viable solution for some employers.

Most of the group captive work we are involved in is with tightly controlled groups (generally having 10-12 employers and each having 500-1500 employee lives per employer) within the same industry classification. At this level, there tends to be more per capita retained risk in the captive and higher levels of active engagement which provides more room for impactful movement of the 'results needle' for each member.

I should also mention that the premise of an MSL captive should not be just about trying to save money only on the medical stop-loss itself. I believe a captive should be viewed as a contributing component within a larger holistic strategy for reducing the overall cost of providing healthcare benefits to employees on a long-term basis.

How much further potential is there?

The growth potential for MSL captives remains significant. More large employers will explore expansion of their existing captives, especially as the frequency of medical claims in excess of $1m continues at a rapidly increased pace. Group captives will also continue to expand as more middle-market employers become familiar with increased risk-sharing and different alternative risk mechanisms. We've only begun to scratch the surface of this market segment.