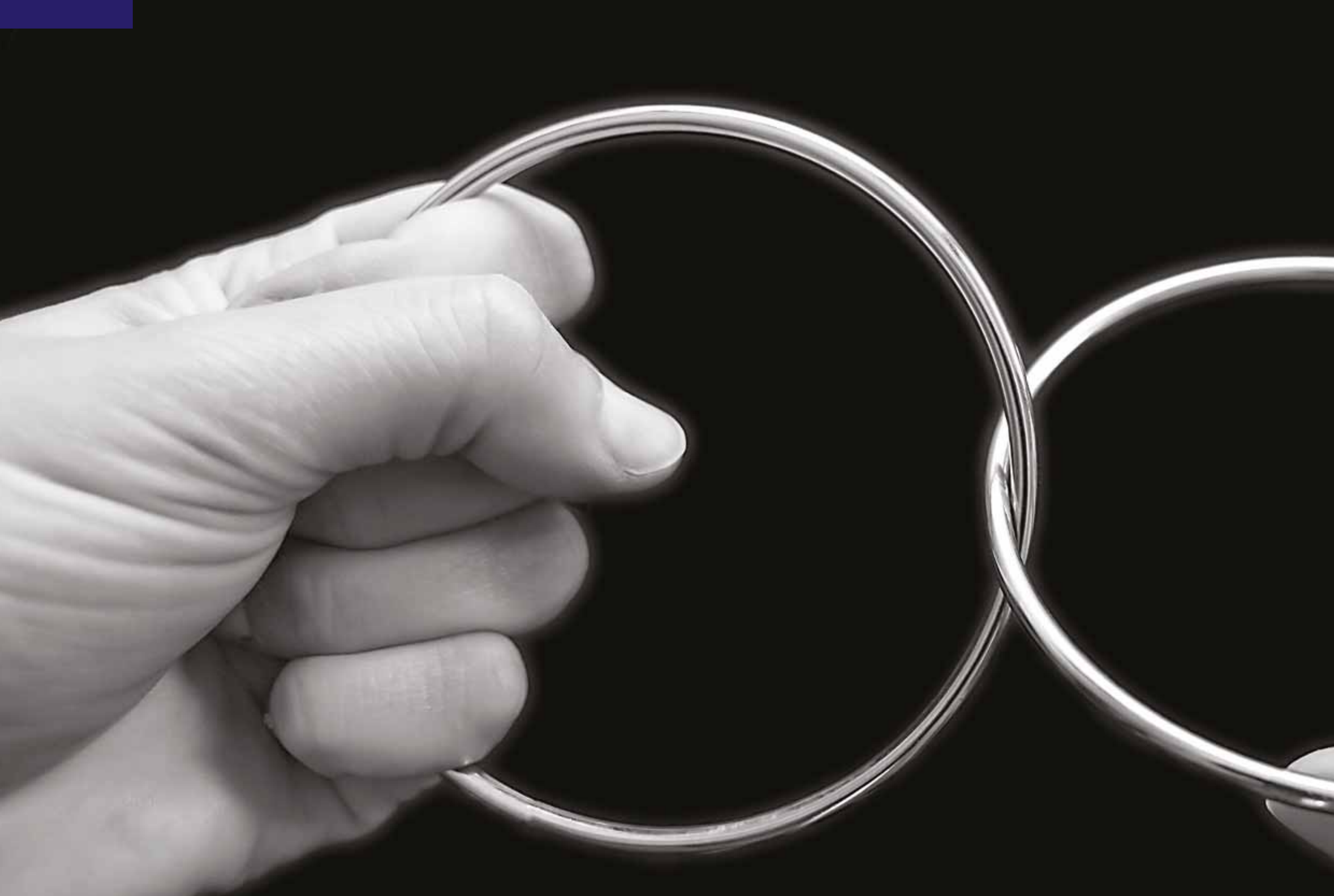

Banding together

A risk-reward model, strong risk management and member engagement are all key to the success of a medical stop loss group captive, as Joe Parrilli and Jim Merkel of Captive Resources explain to *US Captive*.

Against a backdrop of increasing health insurance costs, the idea of banding together and taking control of costs is increasingly appealing to corporates, which are moving away from the traditional market and starting to explore the group captive model.

To be successful and outperform the traditional marketplace, incoming members need to be a good fit—they must be engaged and know that the group captive structure is right for them.

This is according to Joe Parrilli, vice president, and Jim Merkel, senior vice president, at Captive Resources, which advises a group medical stop loss captive, currently with 83 members.

The captive has so far been profitable every year over a seven-year period, and Captive Resources estimates that there will be around 100 member companies in the captive by next year.

Reasons to be cheerful

Parrilli and Merkel believe the success of the captive programme has a number of drivers, the first and foremost being its conservative approach.

"We take a risk-reward approach, before there's any type of risk sharing with other members. It may be a little different from other models out there in the marketplace," says Parrilli.

As a result of this risk-reward model, the captive's typical prospects are going to be financially strong, and will have to give a few things up front, for example, posting some collateral for the risk.

Merkel adds: "The companies that are coming in know they're going to become owners of this company; it's going to be their money. As they get into this pool, there is a culture that they have to drive results not only for themselves, but also for the other members—their partners. So you could say there's a kind of peer pressure to outperform."

Merkel explains that these requirements and expectations in essence, are seen as barriers to acceptance into the captive, and eliminate some companies from consideration—but in the end that protects the whole group and therefore its pool of customers.

The employers that typically join this group have more than 100

> "Success in the captive is a result not only of the conservative nature of the captive layer, but also its members having the ability to affect their overall spend."
> *Joe Parrilli*

employees. The captive looks at companies that are already partially self-funded and are currently using medical stop loss.

As well as a conservative approach through its risk-reward model, the stabilisation of renewals and member engagement in the captive have been key drivers behind the captive's success.

"If you look at the overall spend for health insurance, stop loss is approximately only 15 percent of a company's spend; the other 85 percent is below the group deductible.

"Success in the captive is a result not only of the conservative nature of the captive layer, but also its members having the ability to affect their overall spend," says Parrilli.

The stabilisation of renewals also comes from the group captive having a good relationship with its fronting carrier.

"You always want the fronting carrier and reinsurer to do well, you want them to be viewed as a partner, not just the stop loss carrier," says Parrilli.

Merkel adds: "We know that this group at the end will outperform the marketplace, and that makes it very attractive to its stop loss carrier, and has in turn, helped to facilitate renewals each year, and solidify its relationship with the carrier."

Engagement

In terms of member engagement, the group captive has best practices that members follow, along with opportunities in the form of workshops and webinars.

Parrilli says this engagement is key, and that having a culture of participation in a group captive is vital to its success.

"You bring in companies that have shared ideals. They want to be owners, they understand that the health insurance market is continuously changing, and they want to find other ways to provide best-in-class benefits to their employees without passing the cost down year after year. That's what the members of this group strive for," he says.

"What differentiates this group is that it ensures that members want to be engaged. If they don't want to be actively involved, then we don't believe that they're a fit for the programme," Parrilli adds.

"Moving through the underwriting process on the health insurance side, and looking at large claims details, are among the triggers that lead us to having the conversation with companies about being an owner of the group. If all those things—the underwriting, all the conversations about engagement—work out, then that's who we look to bring into the captive." ■

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