Healthcare: thoughts and opportunities for the future

Looking ahead to 2018, Phillip Giles of QBE North America predicts continued uncertainty for the healthcare reform

It's been said that the only things certain in life are death and taxes. I'm pretty sure that continued uncertainty for healthcare reform could be a legitimate addition to that list—at least through 2018. The unrelenting directional discord emanating from the District of Columbia has led many employers, especially mid-sized, to continually seek alternative avenues to ameliorate long-term stability for healthcare benefit delivery to employees.

The ability to mitigate, if not eliminate, regulatory uncertainty has been a primary driver for the tremendous expansion in employer self-funding and, as of coalescing consequence, the use of captives for medical stop-loss. Self-funded health plans also have the unique ability to customise benefit provisions and implement strategic initiatives for controlling risk and reducing claims costs.

The combination of streamlined regulatory administration, more efficient plan design and effective risk management can return significant savings to a properly-structured self-funded plan. Captive participation in the medical stop-loss that supports a self-insured plan can amplify the benefits derived from self-funding alone.

The majority of self-funded market growth has come from employers having less than 500 employees, with even larger growth percentage coming from employers with fewer than 250 employees. For employers of this size, the ability to retain risk and achieve significant cost stability from a self-funded health plan becomes more difficult on a stand-alone basis. Over the past decade, group medical stop-loss captives have been effectively used to provide these smaller employers with enhanced ability to optimise the effectiveness of their self-funded healthcare plans. This is accomplished by providing a grouping of mid-market employers with access to the same alternative risk transfer techniques employed by much larger organisations to promote increased underwriting predictability, spread risk, and attain leveraged cost savings from related service providers.

It is important to understand that the primary objective of group medical stop-loss captives is to attain long-term stability in the overall cost of healthcare delivery to employees; not to simply reduce the price of medical stop-loss insurance. The only way to reduce cost of insurance is to more efficiently reduce exposure to the risk itself.

Quod Erat Demonstrandum: What needed to be proven has been demonstrated.

With nearly a decade of progressively increasing experience as a mainstream industry segment, most group medical stop-loss captives have proven to deliver a significant level of performance success by effectively managing and broadly diffusing risk. Even though medical stop-loss, by nature, is not a 'pooled product', the concepts of pooled underwriting can be applied to a unified group of self-funded employers that are participating as reinsurers of a shared medical stop-loss portfolio. The increased engagement among a grouping of like-minded employers provides the platform for innovation in plan design, proactive risk control and cost mitigation initiatives. Plan designs that utilise more efficient provider networks or referenced-based pricing, or encourage more effective consumerism will contribute to significant plan savings.

Proactive risk mitigation such as direct provider delivery, centres of excellence for significant medical conditions, and alternative treatment venues are all techniques that are increasingly being used by self-insured employers and medical stop-loss captives. Such initiatives encourage long-term medical stop-loss pricing stability for the captive and help generate underwriting surplus that can be strategically deployed in any number of ways to further expand plan benefits or reduce costs. It is not unusual for well-run group captives to generate savings reaching double-digit percentages for their members.

Looking forward: opportunities for 2018 and beyond

Continued regulatory and healthcare economic uncertainty is expected to drive self-funded healthcare and increase the use of group captives for medical stop-loss. There are several opportunities for group captive market expansion that I am particularly bullish on:

Homogenous industry verticals: being industry-specific in their composition, these groups can be smaller, as the underlying risk and underwriting profile is similar.

The required size to achieve an appropriate spread of risk is not as great as in heterogeneous groups. Group captives are especially effective when formed by closely-aligned groups of like-minded employers within the same industry. Energy; food and beverage distribution; hospital and healthcare; higher education; hospitality; transportation; and manufacturing are examples of industry–specific niches served by tightly contained group captives.

Large brokers that have industry practice groups can sponsor captives for existing clients within specific industry niches. Proprietary industry-specific captives can provide an effective differentiator, for both the client (enhanced employee benefit potential) and brokerage (account protection, performance and persistency), within highly competitive markets. Opportunities exist for industry-specific trade associations sponsoring a group captive as a benefit for closely tied and engaged membership.

Risk retention groups (RRGs): RRGs are actually a form of homogenous group captives. RRGs are authorised by the Federal Liability Risk Retention Act to cover only liability risks, however, the potential exists for groups of employers participating in RRGs to form a parallel group captive for medical stop-loss coverage.

Since the membership of an RRG is already familiar with group risk sharing and captive participation, formation of a separate medical stop-loss captive comprised of similar membership should work well. Top industry segments within RRGs include: healthcare, public entity, education, manufacturing, transportation, and property development. Existing property and casualty group captives can also be good candidates for the formation of separate group medical stop-loss captives comprised of parallel membership.

High-performance group captives: these can be either heterogeneous or homogenous in terms of industry composition.

As its name would imply, a high-performance captive would be open only to established self-insurers with a consistent track record of exceeding specific performance benchmarks. A grouping of high-performing self-insurers can further enhance the ability to hedge market and claims volatility, reduce plan expenses, and produce increased surplus margin advantages to members. As with other forms of group captives, these are most likely to be formed by large brokers, third-party administrators or associations having a large pool of existing self-funded clients.

The average individual member size within homogeneous industry and high-performance groups tends to be larger than in the more ubiquitous heterogeneous 'open-market' groups. I have seen well-defined and well-managed homogenous and high-performance groups with as few as three employer members and 1,500 lives. A typical average may be 10 to 12 employer members with a 500-life average member size. Some can have 25 to 50 members, accommodating a size range of 100 to 1,500 lives. As with any group captive arrangement, size is not the primary qualifier.

Success is truly predicated on the quality and engagement levels of the membership. A more discerning approach to membership selectivity and more active risk management engagement of members is likely to yield superior performance results. CIT

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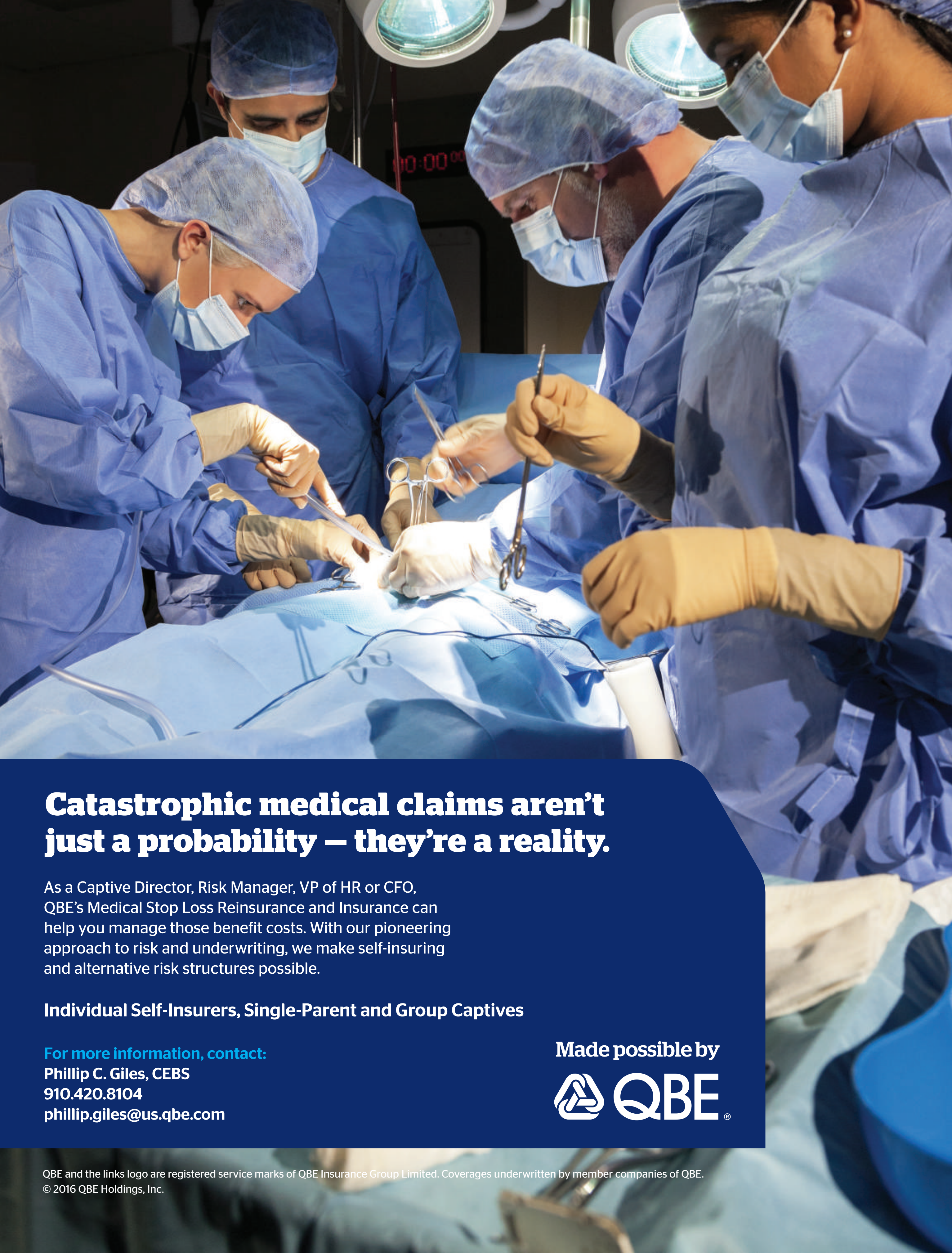
Phillip Giles, vice president for sales and marketing, QBE North America



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For more information, contact:
Phillip C. Giles, CEBS
910.420.8104
phillip.giles@us.qbe.com
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