Positively SIIA...Positively Connected
Connecting the Self-Insurance Industry for Positive Risk Solutions

Reinsuring Your Employee Benefit Captive

Chris Carlson, FSA, MAAA
• Oliver Wyman Actuarial Consulting, Inc.
  • 414.223.7986
  • chris.carlson@oliverwyman.com

Burt Wilson
• Sr. Vice President, Captives
  • AIG Benefit Solutions
  • 530.718.7911
  • burt.wilson@aigbenefits.com

David Rains
• LA&H Practice Leader
  • Guy Carpenter LLC
  • 215.864.3786
  • david.a.rains@guycarp.com

October 3, 2012
CAPTIVE RATIONALE AND BENEFITS

Introduction

“Traditional” Employee Benefits Captives

Medical Stop Loss

Case Studies
Traditional Employee Benefits

• Limited to narrow interpretation
  – Concern about ERISA complications
  – LTD, STD, Group Life, etc.
• Value in traditional EB captives
  – Third party risk
  – Consolidation
  – Self-insurance

Traditional Employee Benefits

• Drawbacks
  – Requires fronting carrier
  – Additional regulatory filings
  – Cost savings minimal
• Companies beginning to drop EB from captives
  – Not cost effective
  – Benefits included are not visible
Medical Stop Loss

• Benefits vary by size of employer
• Primarily allows large groups to keep underwriting margins
• Allows medium and small group to avoid regulatory requirements

Medical Stop Loss

• Large Group
  – Increase in activity due to the elimination of lifetime benefit maximums
  – Reinsurance rates have been favorable thus may not be cost effective
  – Need other reasons to insure in captive
    • Third party risk
    • Spread risk across subsidiaries
Medical Stop Loss

• Middle Market Group
  – Most to benefit from self-insuring
    • Avoid coverage mandates
    • Avoid insurer fees
    • Avoid market reforms
  – Can significantly reduce risk by buying stop loss at low threshold
    • Generally can go as low as $20,000
    • Aggregate stop loss can also mitigate risk

Medical Stop Loss

• Middle Market Group (Continued)
  – Why use captive?
    • Share in underwriting gains
    • Flexibility in structure of stop loss program
  – Group captives
• Small Group
  – Most difficult to operate
    • Significant exposure to risk
    • Regulators are weary of arrangements
  – Most to gain from self-insuring with low stop loss
  – Group captive
    • Design captive with homogenous groups
    • Share in gains/losses
Reinsurer seeking clients who have...

Business Plan

C-suite commitment

Motivation

Sense of Urgency

Strong business partners

Domicile

Structure

- Lead change
  - Penetration into group
  - Messaging
  - Behavior
  - Long term mindset
  - Financial
  - Philosophical
  - Ability to say no
  - Can't knowingly let a bad actor into captive

Motivation

- Behind setting up the captive
  - Focus on
  - Loss control
  - Claims management

Sense of Urgency
Reinsurer seeking clients who have…

### Strong business partners
- Captive manager
- TPA
- Actuary
- Banking
- Investment advisors
- UR
- LCM
- Health Risk Management

### Domicile
- Experienced regulators

### Structure
- Group captive vs agency
- Cost containment requirements
- Effectiveness of tools vs marketability of captive
- Balance of controlling spend vs. getting growth/scale
- Collateral requirements

Company seeking reinsurer who has…

### Length of time in captive space

### Demonstrated success in space

### Commitment to captive space

### Quality

### Ability to front the captive

### Customer service capabilities

### Risk protection
Company seeking reinsurer who has...

<table>
<thead>
<tr>
<th>Length of time in captive space</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Employee benefits</td>
</tr>
<tr>
<td>• P &amp; C space</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Success in space</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Commitment to captive space</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Long term</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A rated paper</td>
</tr>
<tr>
<td>• Market reputation</td>
</tr>
</tbody>
</table>

Company seeking reinsurer who has...

<table>
<thead>
<tr>
<th>Ability to front the captive</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Customer service capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ability to reimburse claims timely</td>
</tr>
<tr>
<td>• Easy to do business with/friendly</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Provide specific and aggregate protection in excess of the captive retention</td>
</tr>
<tr>
<td>• Provide aggregate protection for the captive layer</td>
</tr>
<tr>
<td>• Organ Transplant carve-out coverage</td>
</tr>
</tbody>
</table>

800.851.7789
www.SIIA.org
Why do Reinsurers Like This?

- Aligns incentives of captive and reinsurer
- Long term in nature
- Expands the stop loss market
  - Taking employer groups out of the BUCA’s

QUESTIONS AND DISCUSSION
Positively SIIA...Positively Connected
Connecting the Self-Insurance Industry for Positive Risk Solutions