



Viva la captives!

2022 ANNUAL CONFERENCE • JUNE 27-29, 2022 • THE COSMOPOLITAN OF LAS VEGAS • LAS VEGAS, NV

Transitioning from a Fronted Med Stop-Loss Captive to a Direct Writer

Panelists:

Phillip Holowka, COO, Complete Captive Management Services
Dennis Brockway, President, Northeast Mobile Health Services

June 29, 2022



westerncaptiveconference.org

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About Us:

Dennis Brockway

- Current President of Northeast Mobile Health Services
 - Greater Portland area, Maine and other areas
- Maine Ambulance Association & American Ambulance Association Government relations committee
- Been in EMS for 50 years; Red cross ambulance attendant
- Early adopter of medTRANS
- Subscriber to taking matter into your own hands

Phillip Holowka

- High octane career as a paramedic
- Had various roles in EMS management
- Sponsored a feasibility study for a group captive for ambulance companies
- medTRANS Insurance, Ltd.; a DE domiciled captive resulted

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Life as a Captive Promoter

- My affinity for ambulance companies enabled me to have a warm relationship within this class of trade
- medTRANS Insurance, Ltd. received its license in March 2010
 - Domiciled in Delaware
 - Med stop loss reinsurer to a commercial carrier
 - Mutual ownership
 - 100% owned and governed by its members
- First member joined August 1, 2010
- Northeast Mobile Health joined July 2011
 - Member # 9
 - Elected to the Board of Directors – December 2012

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Life as a Captive Promoter

- Northeast's motivation to explore medTRANS
 - Introduced to the captive in mid 2010 for our 7/1 renewal
 - Timing & hesitation was not in our favor to join in 2010
- 2011, we received underwriting data and the carrier offered only a 5% increase
 - Management all agreed, enough is enough
- We placed value on:
 1. Captive was 100% owned by the members
 2. Captive promotor and captive manager were service providers
 3. Felt strongly in taking control ourselves

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Life as a Captive Promoter

| Northeast Mobile Health | | | | | | | | | | | | |
|-------------------------|--------------------|-----------|----------|------------------|------------|-------------------------|---------|-------------|------------------|------------|----------|----------|
| Year | Fully Insured PEPM | | Delta | Self Funded PEPM | | | | | | | | |
| | Proposed Renewal | | | Lives | A+B+(C-D) | A | B | C | D | (C-D) | | |
| | Rate Increase | PEPM Rate | | | PEPM | Gross Stop Loss Premium | Admin | Paid Claims | Stop Loss Claims | Net Claims | | |
| 2010 | | \$579.48 | | | | | | | | | | |
| 2011 | 5% | \$609.03 | -\$13.42 | 1,257 | \$595.62 | \$142.12 | \$65.50 | \$450.18 | \$62.18 | \$388.00 | | |
| 2012 | | | | 1,353 | \$767.69 | \$169.15 | 19.0% | \$64.75 | \$533.79 | 18.6% | \$0.00 | \$533.79 |
| 2013 | | | | 1,184 | \$696.13 | \$174.97 | 3.4% | \$64.75 | \$456.40 | (14.5%) | \$0.00 | \$456.40 |
| 2014 | | | | 1,442 | \$701.99 | \$126.33 | (27.8%) | \$64.27 | \$528.75 | 15.9% | \$17.37 | \$511.38 |
| 2015 | | | | 1,550 | \$599.32 | \$139.86 | 10.7% | \$65.27 | \$396.36 | (25.0%) | \$2.17 | \$394.19 |
| 2016 | | | | 1386 | \$783.64 | \$187.38 | 34.0% | \$62.82 | \$625.83 | 57.9% | \$92.39 | \$533.44 |
| 2017 | | | | 620 | \$626.03 | \$238.31 | 27.2% | \$49.98 | \$337.74 | (46.0%) | \$0.00 | \$337.74 |
| 2018 | | | | 1058 | \$1,064.80 | \$219.97 | (7.7%) | \$84.71 | \$809.21 | 139.6% | \$49.09 | \$760.13 |
| 2019 | | | | 925 | \$910.26 | \$216.91 | (1.4%) | \$95.90 | \$597.45 | (26.2%) | \$0.00 | \$597.45 |
| 2020 | | | | 769 | \$1,061.15 | \$222.42 | 2.5% | \$95.90 | \$742.83 | 24.3% | \$0.00 | \$742.83 |
| 2021 | | | | 642 | \$783.21 | \$244.96 | 10.1% | \$95.90 | \$610.69 | (17.8%) | \$168.34 | \$442.35 |
| 2022 | | | | 232 | \$1,045.23 | \$254.87 | 4.0% | \$95.90 | \$694.46 | 13.7% | \$0.00 | \$694.46 |
| | | | | 1,108 | \$802.92 | \$112.75 | 72.4% | | \$565.31 | 25.6% | \$32.63 | \$532.68 |
| | | | | | | | | | AVG | | | |

11 years of experience

Stop Loss Premium \$2,182,766

Stop Loss Claims \$ 394,638

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Life as a Captive Promotor

- Fast forward 4 years, the “event” happened
 - Mid 2014 one of our larger members was acquired by private equity
 - The PE firm shopped the stop loss proposal & withheld the group’s name and submitted the data to the current fronting carrier

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Renewal options

On this page, sign to authorize the rates and initial to select the renewal you want

Policyholder name: [REDACTED] Authorized signature: [REDACTED]
 Account number: [REDACTED] Printed name: [REDACTED]
 Renewal Status: Firm Printed title: [REDACTED]
 Firm through date: 8/10/2014 Date signed: [REDACTED]

| Tier | Employees |
|----------------------|------------|
| Employee only | 185 |
| Employee plus spouse | 42 |
| Employee plus child | 68 |
| Family | 12 |
| Total | 307 |

| Specific Stop Loss policy details and renewal options | Current | Renewal |
|--|--------------------|--------------------|
| Plan thresholds | | |
| Individual Specific deductible | \$100,000 | \$100,000 |
| Aggregating Specific deductible | None | None |
| Annual maximum | \$0 | \$0 |
| Lifetime maximum | Unlimited | Unlimited |
| Specific rates | | |
| Claims basis | 12/15 | 12/15 |
| Benefits covered | Medical and Rx | Medical and Rx |
| Employee only | \$62.70 | \$68.34 |
| Employee plus spouse | \$119.13 | \$133.26 |
| Employee plus child | \$109.73 | \$110.72 |
| Family | \$194.37 | \$211.85 |
| Total monthly premium | \$26,397.04 | \$28,310.98 |
| Renewal rate action as a % increase to current monthly premium | | 7.3% |

| Aggregate Stop Loss policy details and renewal options | Current | Renewal |
|--|-------------------|-------------------|
| Aggregate rates | | |
| Aggregate Benefit Maximum | \$1,000,000 | \$1,000,000 |
| Per employee per month rate | \$8.59 | \$8.59 |
| Total monthly premium | \$2,790.63 | \$2,790.63 |
| Renewal rate action as a % increase to current monthly premium | | 0.0% |

| Aggregate thresholds and rates | Current | Renewal |
|---|----------------|----------------|
| Claims basis | 12/15 | 12/15 |
| Benefits covered | Medical | Medical |
| Employee only Aggregate deductible factor | \$274.80 | \$294.94 |
| - Medical | \$202.41 | \$215.14 |
| - Rx Drug | \$72.39 | \$79.80 |
| Employee plus spouse Aggregate deductible factor | \$443.14 | \$480.22 |
| - Medical | \$391.12 | \$420.01 |
| - Rx | \$52.02 | \$60.21 |
| Employee plus child Aggregate deductible factor | \$497.01 | \$534.86 |
| - Medical | \$446.71 | \$480.34 |
| - Rx | \$50.30 | \$54.52 |
| Family Aggregate deductible factor | \$814.89 | \$880.34 |
| - Medical | \$690.48 | \$731.12 |
| - Rx Drug | \$224.41 | \$249.22 |
| Minimum Attachment Point | \$1,406,702.88 | \$1,503,204.24 |
| Estimated monthly renewal liability | \$117,226.24 | \$125,267.02 |
| Renewal rate action as a % increase to current monthly aggregate deductible factors | | 6.8% |

| Total estimated annual plan costs | Current | Renewal |
|---|-----------------------|-----------------------|
| Total costs | \$360,252.04 | \$375,219.32 |
| Annual Aggregate Attachment Point | 1,406,702.88 | 1,503,204.24 |
| Total estimated self-funded plan costs | \$1,766,954.92 | \$1,878,423.56 |
| Renewal rate action as a % increase to total estimated annual | | 6.3% |

Renewal options

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| Aggregating Specific deductible | None | None |
| Annual maximum | \$0 | \$0 |
| Lifetime maximum | Unlimited | Unlimited |
| Specific rates | | |
| Claims basis | 12/15 | 12/15 |
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| Renewal rate action as a % increase to total estimated annual | | 6.3% |

Select renewal option
 Initial selected renewal option

The rates agreed upon in this renewal acceptance form are effective on the policy renewal date and take precedence over any billing statements that may be received in the future.

The "event" which caused medTRANS members to invest in a different model

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Renewal options

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rates and initial to select the renewal you want

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|--|--------------------|--------------------|
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| Aggregate Stop Loss policy details and renewal options | Current | Renewal |
|--|-------------------|-------------------|
| Aggregate rates | | |
| Aggregate Benefit Maximum | \$1,000,000 | \$1,000,000 |
| Per employee per month rate | \$8.59 | \$8.59 |
| Total monthly premium | \$2,790.63 | \$2,790.63 |
| Renewal rate action as a % increase to current monthly premium | | 0.0% |

| Aggregate Stop Loss policy details and renewal options | Current | Renewal |
|--|-------------------|-------------------|
| Aggregate rates | | |
| Aggregate Benefit Maximum | \$1,000,000 | \$1,000,000 |
| Per employee per month rate | \$8.59 | \$8.59 |
| Total monthly premium | \$2,790.63 | \$2,790.63 |
| Renewal rate action as a % increase to current monthly premium | | 0.0% |

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| | | | | | |
|--|--------------------|--------------------|-----------------|-----------------|-----------------|
| Employee plus child | \$109.73 | \$110.72 | | \$119.13 | \$120.51 |
| Family | \$194.37 | \$211.85 | | \$109.73 | \$109.92 |
| Total monthly premium | \$26,397.04 | \$28,310.98 | | \$194.37 | \$196.30 |
| Renewal rate action as a % increase to current monthly premium | | 7.3% | Monthly premium | | -0.4% |

| Aggregate Stop Loss policy details and renewal option | | | And renewal options | | |
|--|-------------------|-------------------|---------------------|-------------------|-------------------|
| Aggregate rates | Current | Renewal | | Current | Renewal |
| Aggregate Benefit Maximum | \$1,000,000 | \$1,000,000 | | \$1,000,000 | \$1,000,000 |
| Per employee per month rate | \$9.09 | \$9.09 | | \$9.09 | \$6.80 |
| Total monthly premium | \$2,790.63 | \$2,790.63 | | \$2,790.63 | \$2,087.80 |
| Renewal rate action as a % increase to current monthly premium | | 0.0% | Monthly premium | | -25.2% |

| Aggregate thresholds and rates | Current | Renewal | | Current | Renewal |
|---|-----------------------|-----------------------|---------|-----------------------|-----------------------|
| Claims basis | 12/15 | 12/15 | | 12/15 | 12/15 |
| Benefits covered | Med/RX | Med/RX | | Med/RX | Med/RX |
| Corridor | 120% | 120% | | 120% | 120% |
| Employee only Aggregate deductible factor | \$274.80 | \$294.94 | | \$274.80 | \$294.94 |
| - Medical | \$202.41 | \$219.14 | | \$202.41 | \$219.14 |
| - Rx Drug | \$72.39 | \$75.80 | | \$72.39 | \$75.80 |
| Employee plus spouse Aggregate deductible factor | \$543.14 | \$560.22 | | \$543.14 | \$560.22 |
| - Medical | \$391.12 | \$400.01 | | \$391.12 | \$400.01 |
| - Rx | \$152.02 | \$160.21 | | \$152.02 | \$160.21 |
| Employee plus child Aggregate deductible factor | \$497.01 | \$534.85 | | \$497.01 | \$534.85 |
| - Medical | \$366.71 | \$392.05 | | \$366.71 | \$392.05 |
| - Rx | \$130.30 | \$142.80 | | \$130.30 | \$142.80 |
| Family Aggregate deductible factor | \$814.89 | \$900.34 | | \$814.89 | \$900.34 |
| - Medical | \$590.48 | \$651.22 | | \$590.48 | \$651.22 |
| - Rx Drug | \$224.41 | \$249.12 | | \$224.41 | \$249.12 |
| Minimum Attachment Point | \$1,406,702.88 | \$1,503,204.24 | | \$1,406,702.88 | \$1,503,204.24 |
| Estimated monthly renewal liability | \$117,225.24 | \$125,267.02 | | \$117,225.24 | \$125,267.02 |
| Renewal rate action as a % increase to current monthly aggregate deductible factors | | 6.9% | Monthly | | 6.9% |

| Total estimated annual plan costs | | | | | |
|--|-----------------------|-----------------------|------------------|-----------------------|-----------------------|
| Total costs | Current | Renewal | | Current | Renewal |
| Total annual premium | \$350,252.04 | \$373,219.32 | | \$350,252.04 | \$340,435.56 |
| Annual Aggregate Attachment Point | 1,406,702.88 | 1,503,204.24 | | 1,406,702.88 | 1,503,204.24 |
| Total estimated self-funded plan costs | \$1,756,954.92 | \$1,876,423.56 | | \$1,756,954.92 | \$1,843,639.80 |
| Renewal rate action as a % increase to total estimated annual plan cost. | | 6.8% | Estimated annual | | 4.9% |

| | |
|-----------------------|--|
| Select renewal option | |
|-----------------------|--|

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NOW WHAT?

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The Exploration: Late 2014

- medTRANS started asking questions:
 - I reached out to multiple captive managers asking what other structures we can build to be more efficient
 - 99/100 captive managers all had the same response: fronted/reinsurance captive
 - 1 captive manager introduced a new structure

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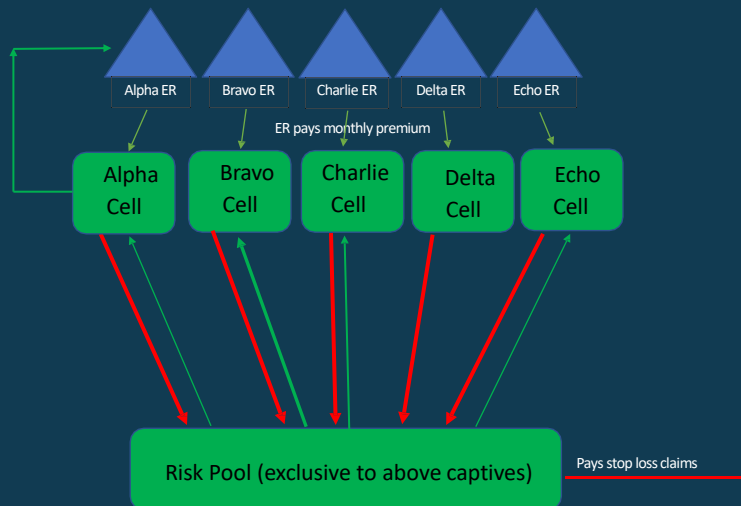
The Exploration: Early 2015

- The Board of Directors was introduced to this new structure and they were in favor to put the transition to a membership vote
 - Vote: 100% in favor to move to the new structure
- The new structure was:
 - Protected Cell Captive (captive facility/risk pool)
 - Still owned 100% by the members
 - Each insured gets their own protected cell
 - Said cell issues a medical stop loss policy to the insured
 - Each cell cedes 100% of the stop loss risk to the risk pool (medTRANS) via reinsurance agreement
 - The risk pool retrocedes 100% of the risk back to the protected cells

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The Exploration: Early 2015



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The Transition: Late 2015

- medTRANS was still nimble with roughly 20 or so employers within the group
 - We had to create 20 protected cells
 - File for 20 different EINs
 - Engage an excess carrier (find one first)
 - Underwrite 20 different medical stop loss policies
 - Issue 20 different medical stop loss policies

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The Launch: January 2016

- What did we have to learn *in short order!*
- Banking
 - Many banks were hesitant on establishing bank accounts for unincorporated insurance companies
- Medical stop loss management (direct writer = no front)
 - Underwriting: engage an actuary, purchase a manual, and hire an underwriter
 - Claims certification: various medical consulting firms
 - Claims payment internal controls

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The Launch: January 2016

- Then:
- 90/10 Quota Share
- \$250,000 floating retention
- Today:
- Admin costs:
 - Captive management is a replacement of carrier
 - In our model, \$265k includes
 - Captive mgmt.
 - Feasibility study & SAO
 - Yearly audit
- 25% operational efficiency which leads to lower premium pricing to the insured

Reinsurance Reporting for medTRANS Insurance, LTD.

As of 3/31/2018

| Schedule #7 | | | |
|---|-------------------|----------------|----------------------|
| Values 9/1/2013 through 3/31/2018 | | | |
| Bordereaux (Earned Basis) | | | |
| Effective Date | Totals @ 12/31/15 | @ 3/31/2022 | |
| Gross Premium Written for Period | \$3,387,669.13 | \$2,479,750.26 | |
| Less charges for: | | | |
| a) Excess Specific Coverage | \$594,183.05 | 17.5% | \$312,794.04 12.6% |
| b) 10% of Second Layer Coverage within Reinsurance Aggregate Limit | \$31,946.21 | 0.9% | |
| c) 10% of First Layer Coverage that exceeds First Layer Participant Limit | \$169,926.89 | 5.0% | |
| d) First and Second Layer Coverage above Reinsurance Aggregate Limit | \$598,714.50 | 17.7% | |
| Ceded Premium | \$1,394,770.65 | 41.2% | |
| a) Premium Tax | \$84,691.73 | 2.5% | \$9,919.00 0.4% |
| b) Administrative Expenses | \$271,013.53 | 8.0% | \$265,534.61 10.7% |
| Ceding Commission | \$355,705.26 | 10.5% | \$275,453.61 11.1% |
| Net Ceded Premium | \$1,637,193.22 | 51.7% | \$1,891,502.61 23.7% |

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Unpredicted Captive Culture

- This model encourages more “individualization” compared to being part of a group captive model
 - Each captive has its own financial statements
 - NEMH’s premium to loss experience
- To emphasize the individualization, the medTRANS risk pool is not a first dollar risk pool like many group captives
 - Only those captives which are profitable share in the risk pool’s profits
 - This functions like a FIFO inventory accounting methodology

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The Risks of Writing Direct

- Solvency
 - The domicile regulator will be much more involved due to solvency risk
 - It is comforting that the regulator is so highly involved
 - If risk pool is exposed to a higher frequency of severity claims than anticipated, risk pool funds could be depleted
- Higher complexity for the captive manager
 - A fronted captive relies upon the Bordereau Report for accounting ease
 - In a direct writer model, the captive manager must offer insurance company account proficiency

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The Risks of Writing Direct

- Legal cost
 - Core documents and insurance policy management
 - MSL policies are constantly changing which requires modification and regulatory approval
 - Helpful that medTRANS has a legal team who also acts as the captive manager
- Underwriting
 - If a disease state is missed or not reported
 - Clinical expertise is vitally important

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The Risks of Writing Direct

- Underwriting
 - Underwriting manual is an expensive, ongoing cost
 - We have developed and certified our own, home-grown manual
- Board and Committee Engagement
 - Board of Directors meet twice per year and have various phone conferences throughout the year
 - Highly involved in making core operational decisions

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Ideal Client (medTRANS Model)

- 250+ all the way up to x,000's of EE employers
- The client must understand the end game
 - Risk financing rather than risk shifting (risk shifting generally translates into motivation for lowest cost premium)

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Transition from Group to Direct Writer

- Within every group, there are prime and sub-prime members
 - Not necessarily due to risk profile/loss ratio but rather
 - Interest/desire to mitigate risk should be each member's primary goal
- To start a risk pool structure, the risk pool will need at least 7 single parent captives
 - Subject to other regulatory requirements
- Each insured needs to understand the end game – risk financing (claim management and achievement of underwriting profits)

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Questions or Comments?



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