HM
STOP LOSS

HM InSights:
MGUs vs. Carriers

As groups decide to self-fund their health plans, there are various options for obtaining Stop Loss coverage. The two most prominent are direct writers/carriers and MGUs (managing general underwriters). MGUs may offer what looks like a good deal on the surface, but groups should evaluate a variety of factors to make a decision that goes beyond price.

Looking Beyond Price

MGUs use another carrier's license and paper for a fee and then underwrite and sell the Stop Loss coverage. This immediately involves another party in the transaction. Direct writers hold both the paper and the pen, so decision-making is consistent and handled in-house by one party.

MGUs typically have lower capital than most direct writers. As such, if MGUs accept any level of risk, they may have less funding to back their coverage because they are not part of a well-established carrier. This may add an element of risk to a plan instead of mitigating risk. A well-capitalized carrier can provide peace of mind and confidence in the knowledge that the self-funded plan is protected by a financially sound reinsurer.

MGUs tend to reinsure at a low level, such as $1 million, which ultimately requires the addition of another party sooner in the process to help ensure proper coverage for large or catastrophic claims. A financially sound carrier, however, will demonstrate its strength with an "excellent" rating from A.M. Best and reinsurance above $5 million, which is a protection advantage for clients looking to rely on just one organization for the majority of their protection.

Evaluating Claims Payment Processes & Results

The speed and accuracy of claim payments among MGUs and carriers alike can vary greatly. For the best results, the MGU or carrier should exceed industry standards for both technical and financial accuracy in processing claims. After all, slow or inaccurate claim payments can negatively impact the cash flow of the group. Groups should request information about claim paying practices and results to make an informed decision.

While MGUs often are aggressive in pricing, they may be less financially stable due to their size and reserves, which can limit their ability to accommodate paying claims at certain price points. There is much more than price involved with Stop Loss coverage. Groups need a plan at a price that ensures proper protection is in place, something that is accomplished through appropriate underwriting methods that result in financially responsible pricing that groups can trust.

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ABOUT HM INSIGHTS

HM developed InSights to provide producers and their clients with information about industry trends that impact Stop Loss insurance. The information is intended to empower readers with market knowledge that can help them to better make coverage decisions in the changing health care environment.

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Valuing Relationships

MGUs tend to have shorter relationships with groups since price is often the center of the relationship. A good carrier aims to establish a relationship for the long haul. The more experience the carrier has with a group, the better able it is to provide solutions that meet the needs of that client.

Groups should consider much more than price when selecting Stop Loss coverage. When MGUs reinsure the group's risk to someone else, that party doesn't understand the underlying risk as well as a direct writer. If that party isn't well capitalized, the level of protection is significantly reduced, leaving the group at risk. A strong carrier will provide coverage based on the group's specific needs and back it with financial security, claims paying results and years of experience.