

Mitigating Risk: Captives vs. Carriers

As employers weigh their benefits options, many look to self-funding as a means of providing group coverage for their employees while maintaining control of their coverage plans. To take on the financial requirements of self-funding, some consider captives as a way to manage costs and risk. While the idea of sharing costs and risk may be appealing, taking part in a captive opens the company to unknown risks and financial burdens tied to the state of its captive business partners.

For groups seeking the self-reliance that self-funding provides, risk can be successfully mitigated by applying Stop Loss insurance at the appropriate level for each individual group's needs. Stop Loss provides coverage against catastrophic losses, protecting a group's finances and its ability to maintain control of its self-funded plan – on its own terms and without partners. Stop Loss coverage from HM Insurance Group (HM) helps to guard the financial health of policyholders, giving them the confidence they need to be self-funded in a changing health benefits market. **See the difference.**

Key Points of Difference	Captive	Carrier (HM Insurance Group)
Initial Investment	Investment is usually made in cash or through a costly letter of credit to cover surplus requirements in the policy	No initial investment is needed to cover surplus requirements
Financial Responsibility	There is a cash requirement for ongoing operations, including fees for legal, accounting and compliance services	Premiums are paid by the customer to cover claims
	Groups can sustain losses in excess of their initial investment based on the claim performance of all member companies	Customer cost is limited by Specific and Aggregate deductible levels chosen by the customer and not tied to the performance of other groups
	Additional cash or other security is required from owners if losses exceed acceptable surplus levels	Cash outflows are more predictable and based on the details of the contract
Risk Exposure	Employer financial risk is partially determined by the health and claims of the employees of other groups that are in the captive	Employer risk level is determined by that group's own experience, and coverage is customized to that situation and backed by HM's strong level of reserves
	Arrangement is not reviewed or rated for financial strength and stability	HM is rated A- (Excellent) by A.M. Best, one of the country's oldest and most respected insurance rating agencies
	There is a limited population of risk that is confined to the member companies, resulting in possible anti-selection and higher costs for unlimited excess coverage	There is less risk related to anti-selection issues, and HM is large enough to offer lower prices related to excess coverage

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Key Points of Difference	Captive	Carrier (HM Insurance Group)
Claims	Payments may be delayed if substantial losses are sustained or owners do not fund the surplus in a timely manner	Claims are paid weekly for fast reimbursement, and quick payment options are available
Profit Distribution	Profits can be delayed as claim development runs out	A competitive price is shared up-front with no contingencies
Litigation	Group has potential liability if claims are denied, and the legal exposure may extend beyond the base claim liability	Employer exposure is limited to the self-funded retention amount

Guide Your Clients to the Financial Security They Deserve

HM Stop Loss coverage is tailored to each client’s level of risk tolerance. Our knowledgeable underwriting experts help to customize plans for self-funded organizations using a wide range of deductibles and contract options.

Our insightful approach helps to satisfy the specialized needs of the group while mitigating the potential claim risk. Clients gain the HM Stop Loss advantage with our commitment to performance, policy and protection.

Performance – It’s the way we do things and what we achieve for our clients. As a direct writer that emphasizes operational performance and cost containment, HM develops smart solutions that drive results and earn the trust and respect of clients.

Policy – Our solid contract provides clarity, financial protection and choice, with many options for customized plans. Streamlined and with limited exclusions, our contract helps to ensure policyholders know their coverage details.

Protection – Self-funded groups can feel confident that their assets are protected from unexpected large or catastrophic claims with a customized plan that is structured to satisfy the individual group’s needs while managing the group’s financial liability.

For more information, contact your HM sales representative or visit hmig.com



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