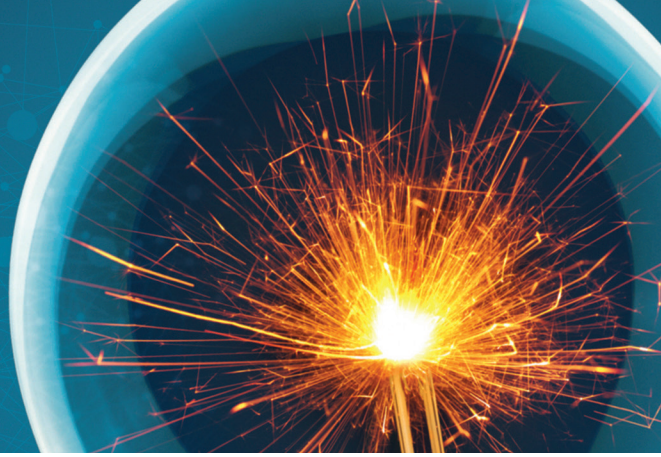
INDUSTRY INSIGHTS FOR IGNITING CONVERSATIONS



HM Sparks: Carriers Versus MGUs

Making an Informed Decision

As groups decide to self-fund their health plans, there are various options for obtaining Stop Loss coverage. Two prominent ones are direct writers/carriers and MGUs (managing general underwriters). Take a look at how an MGU stacks up against a carrier and have confidence in making a decision that goes beyond price.

Reviewing Financial Strength

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 do 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 an advantage for clients looking to rely on just one organization for the majority of their protection.

Evaluating Claims Payment Processing and Results

The speed and accuracy of claims payment among MGUs and carriers alike can vary greatly. With this in mind, be sure to obtain the claim stats needed to make an informed decision. For the best results, the selection should exceed industry standards for both technical and financial accuracy in processing claims. After all, slow or inaccurate claim payment can negatively impact the cash flow of the group.

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 should choose coverage at a price that ensures proper protection is in place, something that can be accomplished through appropriate underwriting methods that result in financially responsible pricing that groups can trust.

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 long-term relationships. The more experience the carrier has with a group, the better it is able to provide solutions that meet the needs of that client.

MGUs may offer what looks like a good deal on the surface, but price alone may not be the best choice for a group. Consider much more than price when selecting Stop Loss coverage. When MGUs reinsure the group's risk to someone else, that party may not understand the underlying risk as well as a direct writer. If that party isn't well capitalized, the level of protection may be significantly reduced, which could leave the group at risk. A strong carrier aims to provide coverage based on the specific group's needs and back it with financial security, solid claims payment results and years of experience.

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