



2018 US Health Care Roundtable

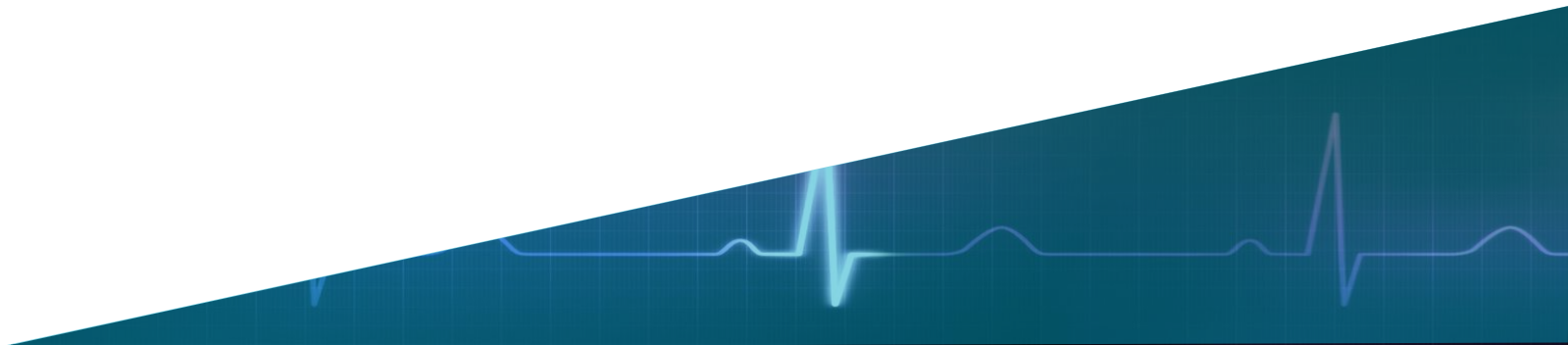
Access to Capital: Captive Innovations for the Modern Health System

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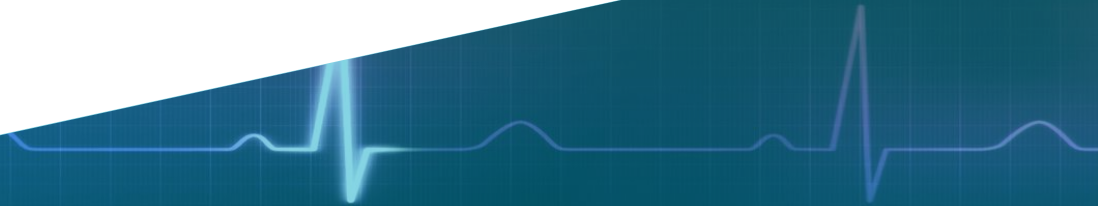
November 8, 2018

Access to Capital: Captive Innovations for the Modern Health System

- Overview of current captive utilization
- Organizational approach to risk and the use of captives
- Alternative uses for captives
- The changing role of captives in modern health systems

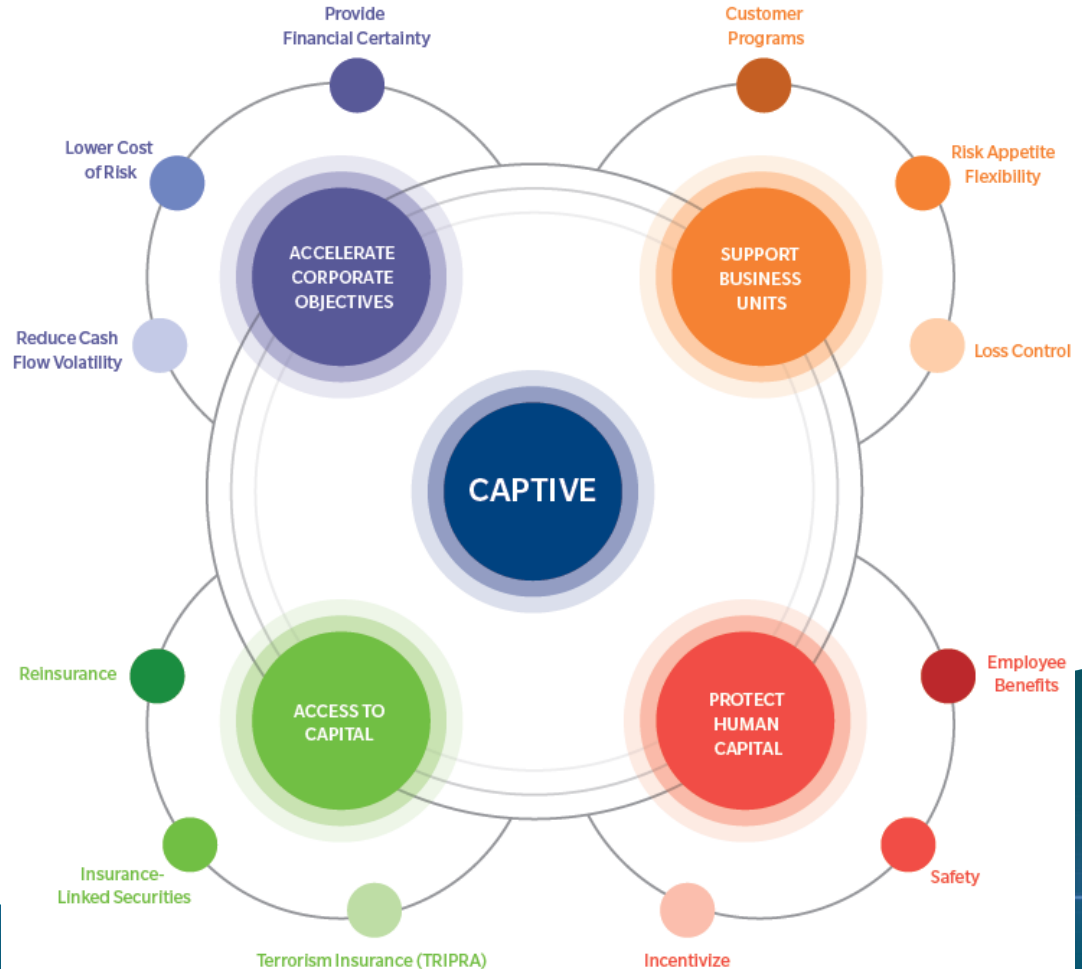


Overview of Current Captive Utilization



Captives at the Core

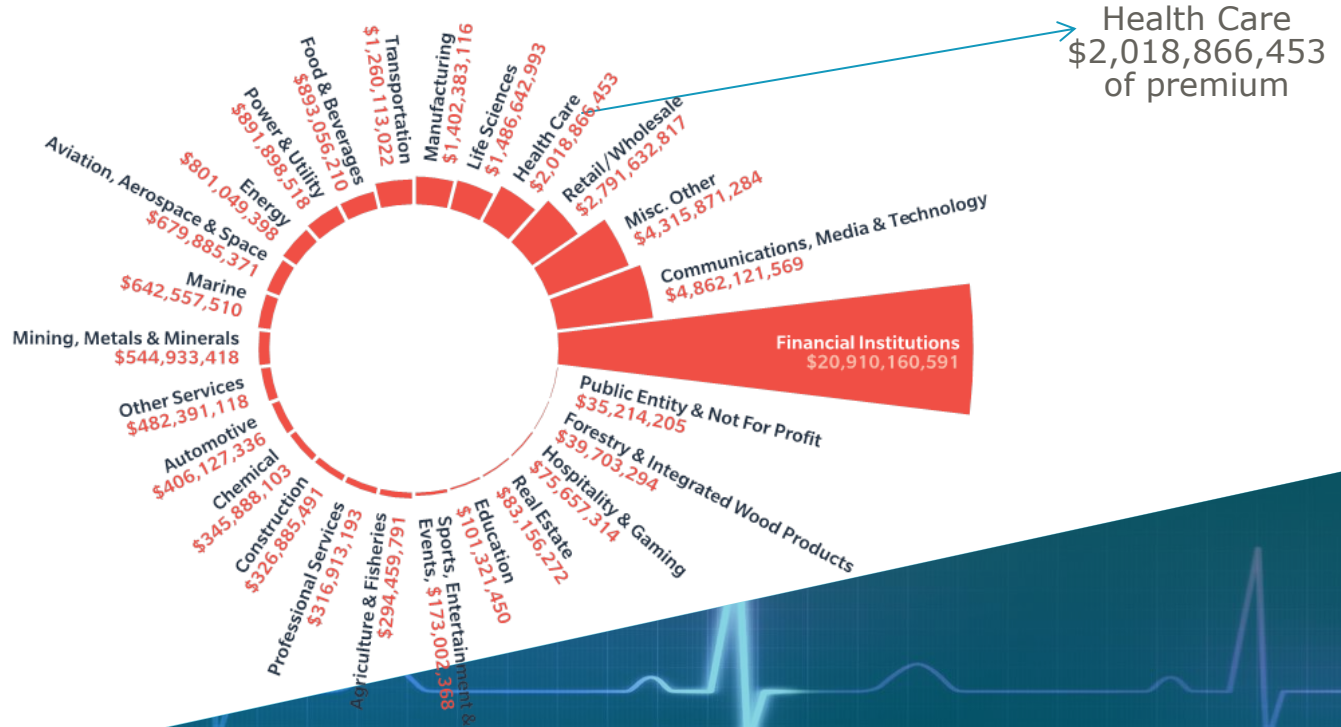
- Placing captives at the core of a risk management program facilitates four key drivers.
- Captives offer remarkable flexibility in accessing capital, accelerating business objectives, supporting business units, and protecting human capital.



Captives by Industry – From the 2017 Benchmarking Report

Captive use continues to expand across industries.

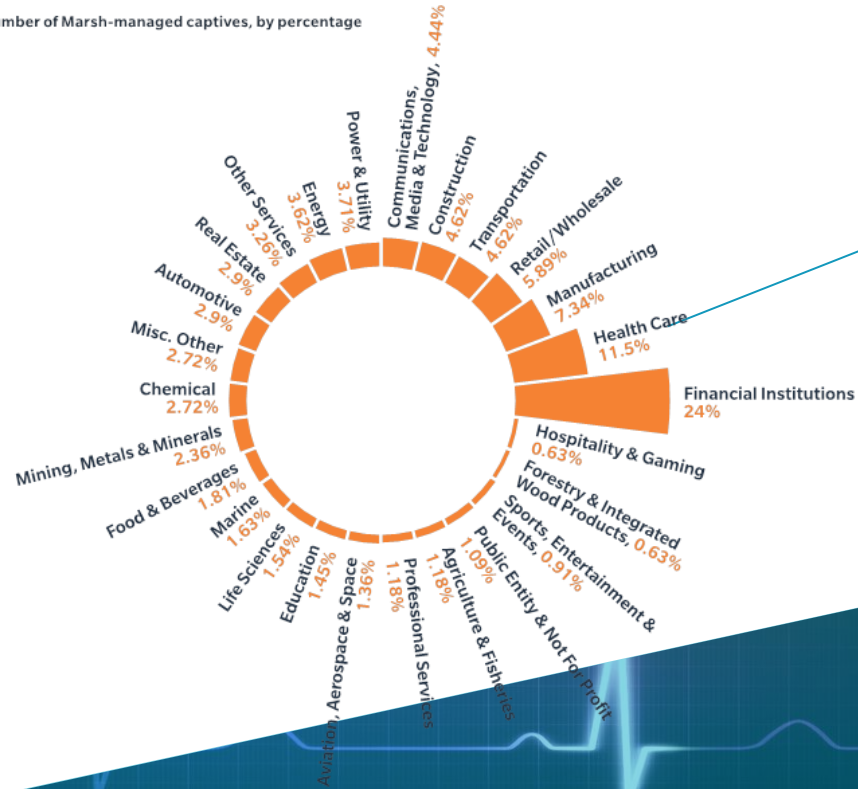
■ 2017 premium volume of Marsh-managed captives, by industry



Captives by Industry – From the 2017 Benchmarking Report

Captive use continues to expand across industries.

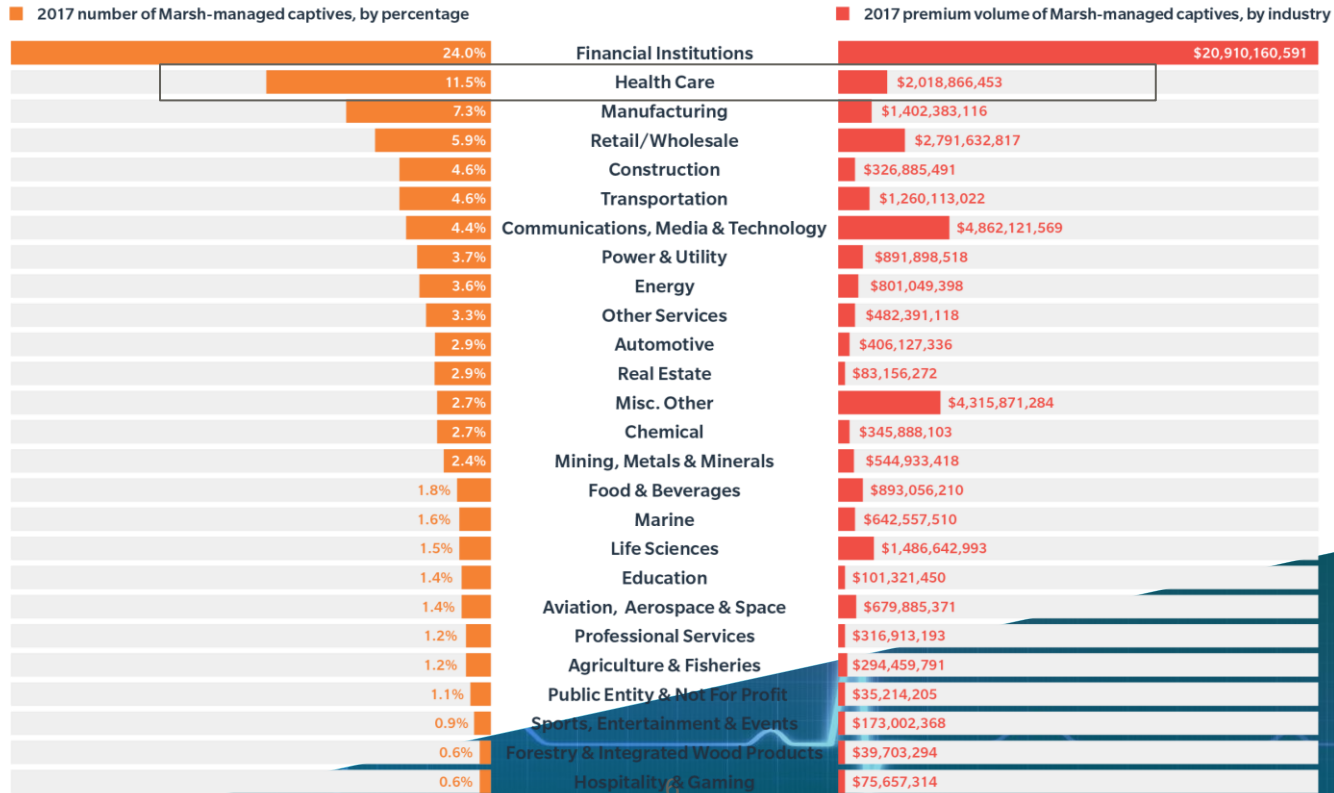
2017 number of Marsh-managed captives, by percentage



Health Care
11.5%
of captives managed
By Marsh

Captives by Industry – Alternative Format

Captive use continues to expand across industries.



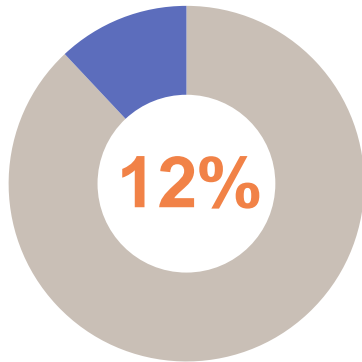
Captives By Industry - Health Care



\$2B
in Premium

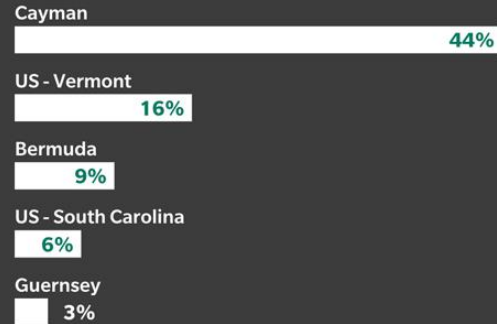
\$2B
in Surplus

Captives in the Health Care industry
make up

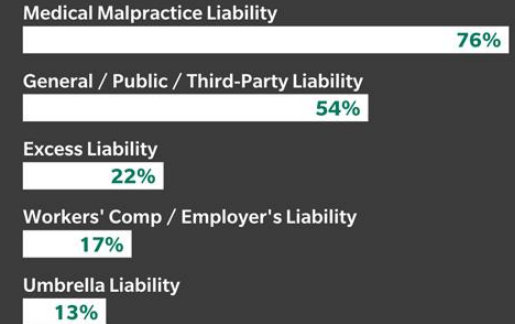


of all Marsh-managed captives.

Top Domiciles for Health Care



Top Coverages for Health Care



Growth Areas

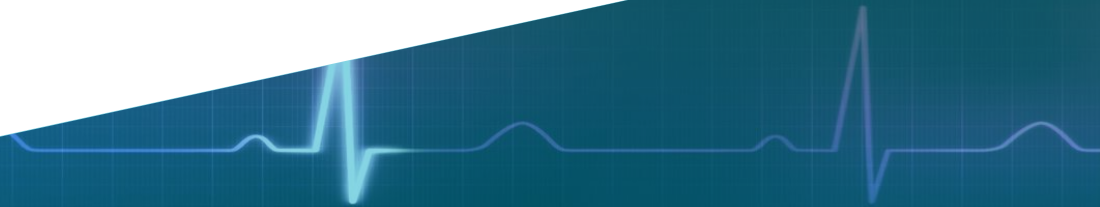
- ✓ Medical Malpractice
- ✓ Employee Benefit Stop Loss
- ✓ Provider Excess Stop Loss
- ✓ Equipment Maintenance
- ✓ TRIA/General Liability for Patient Risk



Emerging Opportunities

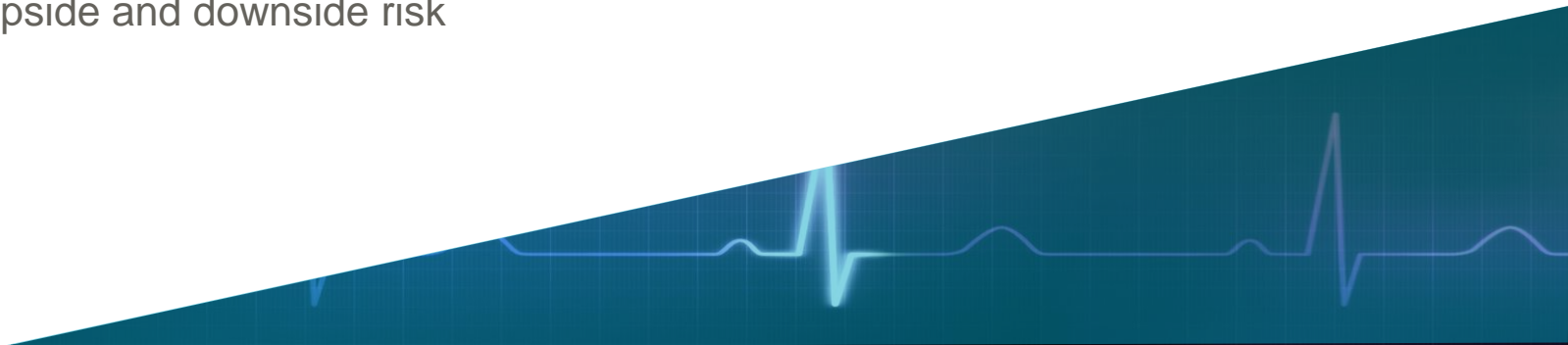
- ✓ Third-Party Business (Medical Malpractice)
- ✓ Cyber Risk

Organizational Approach to Risk and the Use of Captives

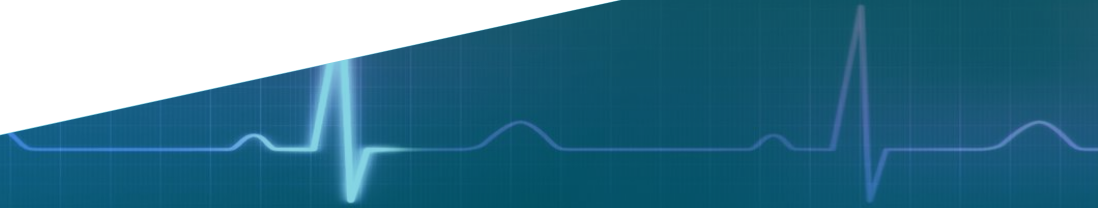


Access to Capital: Captive Innovations for the Modern Health System

- Consider organization's risk philosophy and risk appetite
 - As new risks emerge and coverages evolve, organizations must also evolve
 - Perception of Property and Casualty insurance program must move from an operational expense, to a center of expertise that can promote Enterprise Risk Management
 - Captive companies need to be well connected to and understand parent organization's goals and strategic objectives
 - Captives can help accommodate parent's business efficiency – by developing products, services, grants to facilitate achievement of strategic goals, recognizing both upside and downside risk

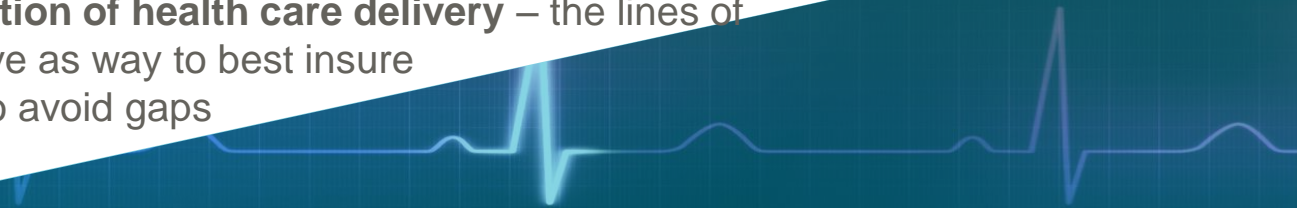


Alternative Uses for Captives

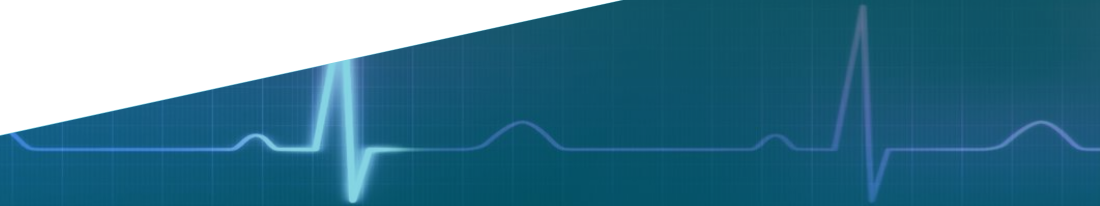


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- **Employment Practices** – including physician employment – hiring, engaging, retaining and managing exits/covenants not to compete
- **Equipment maintenance warranties**
- **Attorney's fees** – disciplined and competitive approach to retaining firms and negotiating rates
- **Cyber** – funding the SIR or a layer of risk on the liability side
- **OCIP deductible** in the captive – controlling safety and standardizing coverage/limits
- **Automobile coverage** in response to hard market
- **Integration of care – strategic structuring of stop loss** – combine to mitigate volatility by creating a bigger pool to insure the risk
- **Coordination and integration of health care delivery** – the lines of coverage of blurring, captive as way to best insure coordination of coverage to avoid gaps

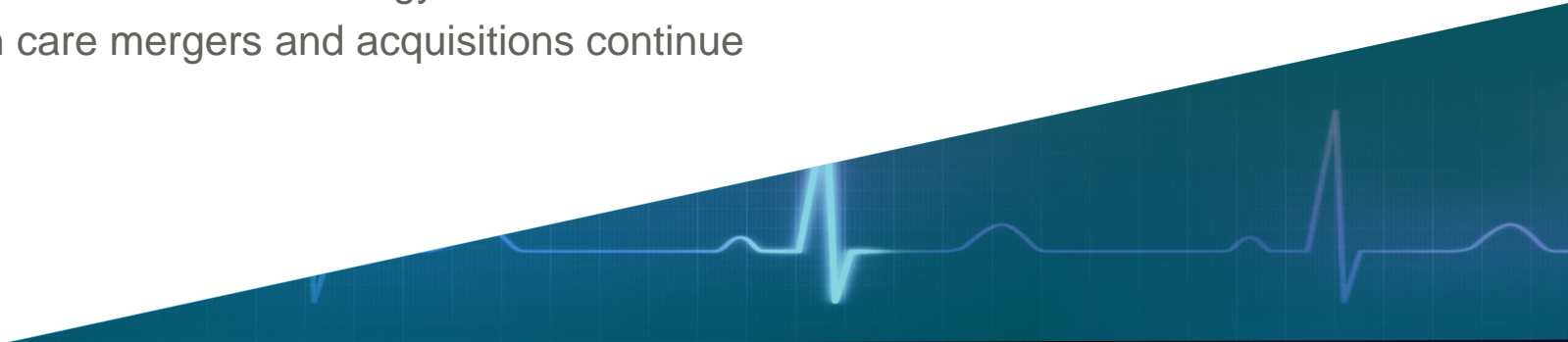


The Changing Role of Captives



Evolution from Strictly a Risk Finance Solution to a Comprehensive Risk Management and Integration Tool

- Historically, captives largely have grown out of necessity
 - Captive formation trends largely track the commercial market volatility
- We are in an unprecedented soft market period where the commercial market still has substantial capacity despite recent years with significant loss event
- We are also in a period where health care delivery models are evolving rapidly, and the corresponding risks are evolving as well
 - More emphasis on integrated and coordinated care
 - Higher reliance on technology
 - Health care mergers and acquisitions continue

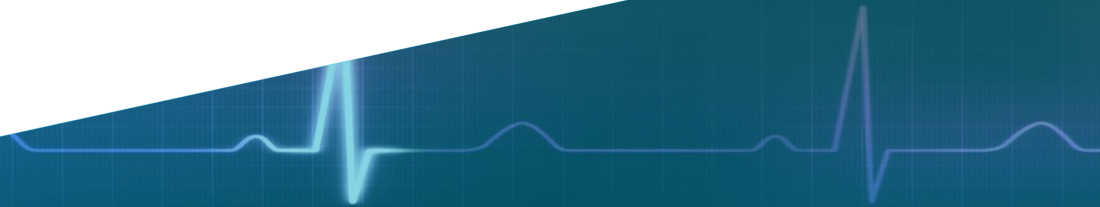


Evolution from Strictly a Risk Finance Solution to a Comprehensive Risk Management and Integration Tool

- While captive still serve many of the safe risk finance benefits from a cost efficiency and control of risk/coverage term perspective, more clients are using them in a more proactive and strategic fashion
 - For example:
 - Captives are more involved in enterprise risk
 - There is more of an emphasis on coordination of coverage and the thought process associated with owning/managing a captive has helped organizations better identify and manage their risks and coverages
 - They are sometimes used as an integration vehicle for strategic alliances or potential future acquisition targets
 - More/different parties have become more involved in captive meetings and discussions
 - Not just the finance or risk management teams
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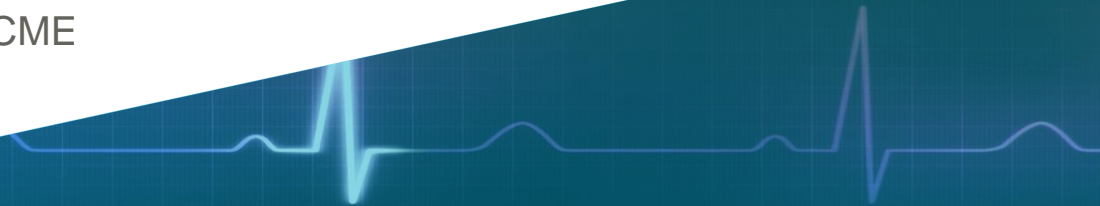
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- With soft market, top reasons for having a captive insurance company have changed
 - Price vs. autonomy/control/ROI
- How do you fund your captive? Considerations for conservatism
- Captives as a driver of patient safety/risk mitigation initiatives:
 - Funding/grants for innovation
 - Opioids
 - Enterprise Risk Management program
 - Salaries of positions key to risk mitigation
 - Education and training of team members
 - Technology and data systems



IU Health's ERM Program arose from Captive Operations

- First captive formed in 2002; RRG formed in 2004
- Captive duties combined with purchasing of property/casualty insurance; running self-insured workers' compensation program; and management of HPL, PPL and GL liability claims
- By 2009, captives financially successfully and had diversified lines of coverage such that parent could make a retrospective premium credit call. Since 2009, Captive has returned \$71,850,604 to parent
- Captive has also provided grants to:
 - Hire an Employment Practices attorney
 - Fund creation of a Chief Risk Officer position
 - Provide online informed consent/patient education software
 - Finance new clinical risk management incident reporting system
 - Fund risk management education/CME discount for insured practitioners



Captive Funded CRO Position Lead to Creation of ERM Process

- CRO position was created with captive funding
 - Experiences in managing all lines of property and casualty insurance as well as captive gave tremendous insight into Parent's operations
 - Parent board requested creation of ERM program
 - Now ERM is integrated into Parent Operations in the following way:
 - Risk Owners are trained and embedded in the organization. They identify, evaluate and score “big picture” risks. Scoring is based on corporate metrics which align to strategic objectives
 - CRO and Executive Leadership team select Top Ten ERM risk from those scored and submitted
 - Top ERM risk receive priority of resources and time; informed decision making
 - CRO is responsible for working with Risk Owners on developing and executing mitigation plans





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