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An Authentic Case Study

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by Ronald M. Roth, President of NNA

Background

A large, privately held home healthcare agency providing in-home skilled and non-skilled nursing and private duty nursing care in the New York, New Jersey, and Connecticut area was concerned with the significant increase in their traditional insurance premiums. As this home healthcare company continued to make acquisitions, expand facilities, and take on more employees, their insurance expense between property/casualty and medical grew to in excess of $1.5 million annually. For four years in a row their premiums had risen by over 20% which did not include increases due to their expansion.

The healthcare agency had multiple discussions with their commercial insurance broker who was unable to provide a solution that made any meaningful impact upon their rising commercial insurance premiums.

They also contacted two other well-known insurance brokers for competitive bids on their insurance portfolio. These companies were similarly unable to provide a comparable level of coverage at a reduction in cost that would have warranted making a change.

One of the commercial insurance brokers, well respected in the tristate area, recommended they speak with our firm to consider using a Captive Insurance Company as a solution. They felt that given their risk profile, lines of coverage, and business profitability, they might be a good candidate for a captive insurance company. They referred the client to our firm for a consultation.

Enter The National Network of Accountants (NNA)

1) Our first step was to take them through an overview of how captives operate, how they integrate with commercial insurance coverage and how they can help make a risk management program more efficient. This initial discussion gave the client the information necessary to become familiar with the basic concept of captive insurance.
2) Our next step was to have this prospective client speak to one of our current clients who has a captive insurance company in the healthcare industry and is currently enjoying the benefits. This is generally the best way to get business owners comfortable with the process and gives them a better understanding of how powerful a business tool a captive insurance company can be.
3) Next, we conducted a comprehensive market analysis and feasibility study to determine whether or not a captive insurance company was an economically viable option and an appropriate solution for the organization's overall risk management,

financial, and strategic needs. This analysis included a review of the healthcare agency's commercial insurance coverage, five years of premium and claims history, a five-year and ten-year financial pro-forma analysis of how the captive should operate, and a review of the company's overall financial position.

4) In addition, we reviewed their ownership and organizational structure. This allowed us to make a positive initial determination as to this client's ability to meet the risk transfer and risk distribution requirements necessary for the potential captive to qualify as an insurance company for federal tax purposes.
5) Finally, we entered discussions with prospective captive domiciles as to their desire to form this company in their jurisdiction, based upon the nature of the risks being covered and the underlying healthcare company itself.
6) In consultation with our actuarial and legal teams, we ultimately determined that a captive insurance company would provide a very good mechanism for this company to create a more efficient risk management program when properly integrated with the correct levels and layers of commercial insurance.

The client was able to take advantage of many of the benefits a captive insurance company offers. It was able to:

- Increase their deductibles within their underlying traditional insurance program, thereby reducing the cost at their annual insurance renewal.
- Insure the higher deductible levels within their own captive insurance company thereby creating investable reserves in their captive insurance company.
- Broaden coverage of risks endemic to the home healthcare industry including breach of privacy data/cyber liability, crime exposures, employment practices liability, and reimbursement for medical deductible expenditures.
- Formalize certain risks for which the company was currently self-insuring such as loss of key supplier, loss of key employee, risk of change in regulatory circumstances, as well as many other enterprise type risks and include them in their captive insurance company.

FINAL OUTCOME

By implementing the captive insurance program, the company has:

1. **Decreased** their overall insurance costs by close to 35% over a three-year period,
2. Gained greater control over their annual underwriting renewal process,
3. Captured significant profits within their captive insurance company.
4. Created a vehicle (the captive) that has become an important part of their current and future business operations and plans.

When the private insurance company was initiated, it was designed to address the singular purpose of reducing the current premium outlay and protecting more of their self-insured risks. As the private insurance company matured, it became a multifaceted and important tool for the parent corporation, its owners, and their overall business planning.

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