ROUNDSTONE

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Medical Captives

FREQUENTLY ASKED QUESTIONS

General Questions

What is a captive insurance company?

A captive insurance company is an insurance company that provides insurance to its owners.

What is a group captive?

A group captive is an insurance facility for unrelated participants who join together to share risk. Each participant has a desire to better control and manage their risk. Participants typically deploy effective risk management programs.

Are captives a mainstream product?

Captives are a long-term, proven insurance funding strategy.

- In 2012, there were more than 5,000 captives world-wide.
- Almost half of the 1,500 largest companies in the world own a captive.
- Since 1980, the number of captives has grown 600%.
- More than 40% of major U.S. corporations have one or more captives in place.
- The alternative risk transfer market makes up more than 30% of the commercial risk market.

What is the key difference between a "standard" market insurance program and a captive insurance program?

In the standard market, all risk is assumed by and all profits are retained by the insurance carrier. A captive program allows the captive participant to share in the risk for a potential reward of underwriting profits and investment income.

What is the Roundstone Medical Captive program?

The Roundstone Medical Captive is a group captive program that offers Medical Stop Loss coverage to middle market employers. An A.M. Best "A+" rated, class XV carrier issues the stop loss policies and Roundstone Management, Ltd. is the underwriter.

Is a captive program the same as a Risk Retention Group (RRG)?

No, the medical captive program includes the issuance of a policy from a licensed and regulated A.M. Best "A+" rated, class XV insurance company.

Is a captive program the same as a Multiple Employer Welfare Arrangement (MEWA)?

No, each employer group receives its own stop loss policy. The employers do not pool funds together for the direct payment of benefits.

What entity issues the insurance policy?

The program uses a domestic A.M. Best "A+" rated, class XV carrier that is an admitted carrier regulated by the Department of Insurance in the state where the policy is issued.

What does it mean to participate in risk?

Participants share in the outcome of the group captive's underwriting performance, including the underwriting profit and investment income.

How does an insured participate in the risk?

The insured participates in the captive on a pro rata basis with its premium and collateral. The carrier cedes (transfers) risk via a reinsurance agreement from the policy issuing carrier to the captive. The insured has an agreement with the captive (“Participation Agreement”) that sets forth the insured’s beneficial interest in the captive’s underwriting performance.

Who is Roundstone?

Roundstone is an independent insurance organization focused on developing captive and alternative risk products and solutions. Roundstone manages the captive facility for the insured participants.

Risk Questions

What does the captive cover?

The captive reinsures the risk between the participants’ deductibles and $500,000 (other retention may be available). Claims above the deductibles, but less than $500,000, are ceded to and paid by the captive’s loss fund. Losses within this layer in excess of the captive’s loss fund are funded by the reinsurer.

What is the exposure for a participant?

The maximum exposure to loss for the participant is their contributed collateral. This is not an assessable program.

Why take the risk?

The opportunity to capture the profits your fully-insured carrier has been enjoying.

How is the captive protected from catastrophic loss?

The captive retention of risk is limited by reinsurance agreements that limit any catastrophic or aggregation of risks. The program’s reinsurance structure limits the participant’s maximum loss and means the participant will never be required to fund more than its premium and collateral. The carrier assumes the program risks above the aggregate and specific occurrence attachment points.

What forms of reinsurance are in place at present?

(1) Individual claims over $500,000.

(2) Aggregate coverage for the group attaching at 125% of expected losses.

Price & Expenses Questions

How is pricing determined?

Our experienced underwriters determine pricing utilizing a proprietary methodology. Expected claims are projected to ensure appropriate funding for the captive.

What are the charges associated with this program?

- Stop Loss Premium.
- Collateral Investment (typically less than 10% of your Stop Loss Premium or 2% of fully insured premium).
- Underwriting and Captive Management Fees are predetermined and included in your Stop Loss Premium.
- Collateral and Captive underwriting return offset premium and collateral contributions at the conclusion of the underwriting year.

Collateral Questions

What is collateral?

Collateral is the contribution the participant makes in the captive to cover liabilities exceeding collected premium. Collateral earns investment income and may remain intact and possibly refundable depending on underwriting results.

Why is collateral required?

Collateral is required to fund the captive’s assumed risk above the premium, net of expenses (the “Captive Risk Premium”). This ensures all potential losses are funded upfront and participants are not required to contribute more money.

What do I get for my collateral investment?

Your collateral secures your participation in the captive, which offers the opportunity to participate in the underwriting profit of the captive and realize investment income on both your collateral and Captive Risk Premium.

How do I post collateral?

Collateral is paid by ACH or check upon binding.

Accounting & Reporting Questions

How do we account for collateral?

Each captive participant will receive quarterly experience statements reflecting all activity of their captive participation, including the collateral contribution and investment return.

When do I know the final results of the program?

All activity is reported quarterly and final results for each underwriting year are available within six months of the conclusion of that underwriting year.

How are the program results conveyed?

You will receive an individual experience statement on a quarterly basis for each underwriting year that you are a participant. The experience statements also show the activity of the entire captive.

Are the captive assets invested?

Assets held by the captive are managed consistent with insurance industry regulations and conventions, predominately in conservative fixed income assets.

Where do captive funds reside?

A bank located in the United States and approved by the National Association of Insurance Commissioners (NAIC) is the custodian of these funds and they are held in an account specific to each captive.

How are the underwriting profits and investment income reflected on my financial statement?

The carrier and Roundstone do not advise on any business income tax requirements or issues. Use of any information from this or any other communication referred to is for general information only and does not represent tax advice either express or implied. You are encouraged to seek professional tax advice for income tax questions and assistance.
Each participant receives a 1099 from Roundstone when a distribution (underwriting profits and investment income) is made. Quarterly, you will receive a financial statement reflecting a snapshot of your performance; this is not a tax document. The following addresses common accounting approaches for captive participants:

(1) **Collateral:** Record at cost. Deduct the initial investment (capital contribution) on the balance sheet from cash. Then show the outlay as a deposit on the balance sheet.

(2) **Underwriting Profit and Investment Income:** Do not have to split these apart when received or record until there is a distribution. Once distributed, record as miscellaneous income on your income statement and increase to cash on your balance sheet.

Won’t accounting for the underwriting profits and investment income every quarter be cumbersome?

You do not have to record anything until there is a distribution. Once the distribution is made, you can record as miscellaneous income on your income statement and increase cash on balance sheet.

Documentation Questions

What documentation is required to join the captive program?

A standard stop loss insurance submission and execution of the Captive Participation Agreement are both required in order to join the captive program.

What is a Participation Agreement?

The Participation Agreement defines the participant's beneficial interest in the captive by governing the risk sharing, risk distribution, termination, representations, and warranties of the participant in the captive.

Domicile Question

Why does Roundstone choose Bermuda as the captive domicile?

- Bermuda offers regulatory benefits which create better reinsurance opportunities and efficiency in program management.
- Bermuda's segregated account law allows different captive groups within Roundstone to segregate assets and liabilities from each other, thus protecting the assets of your captive from other captives Roundstone administers.
- Roundstone Insurance Ltd. is a Class III Bermuda reinsurance facility and a registered United States taxpayer.
- Insurance policies are issued by a U.S. domiciled and state regulated insurance carrier.

Underwriting Questions

What are the minimum requirements?

(1) Completed Application
(2) Current Census
(3) Copy of Current Plan/Policy
(4) Proposed benefit design
(5) Three (3) Years Stop Loss Premium and Claims History
(6) Identity of the current and/or proposed TPA and network
(7) Rate or premium history for 3-5 years

What are the underwriting guidelines?

Roundstone estimates or prices expected claim costs for each employer much like a standard self-insured stop loss submission. In estimating these expected claim costs, Roundstone applies insurance industry underwriting guidelines. Best in class applicants from a historical loss performance, financial strength, and wellness management perspective are ideal candidates for a group captive.

How does the captive program avoid adverse selection?

Each account is underwritten using claims history with the premium and experience of each employer. Captive participants with higher losses and higher risk profile pay more premium. Not all applicants are a good fit and those are declined by our underwriters.

We have the lowest loss ratios in the industry. Why do we want to join a group that does not have a similar experience?

Your outstanding loss experience should be recognized and rewarded. You have the lowest loss ratios and continue to pay premium without any return of unspent money (underwriting profit or investment income) from your lower utilization of your premium funding. The group captive offers you the opportunity to lower your ultimate insurance cost by retaining these excess premium funds.

You already share risk with industry performers who do not attain your same positive outcomes. Your premium is set annually by the carrier based on how the carrier's group performed or possibly insurance industry or financial market performance. Since you are already sharing risk with others, the differences in our program are: (1) clearly delineated expenses, (2) rules for distribution of shared profit and losses, (3) ability to influence group behavior through periodic meetings with access to detailed loss information, and (4) quarterly reports of group performance with your individual financial information outlined in comparison to the group.

As captive managers and underwriters, we do not allow every employer into the captive program. We select participants based on underwriting criteria including historical loss performance, financial strength, and loss control procedures. You are part of a "Best in Class" group that is designed to return underwriting profit and deliver the lowest overall insurance cost.

In conclusion, why take the additional risk and join a captive?

The group captive provides the same policy form coverage as the standard market and offers the following benefits:

(1) Potential sharing of underwriting profits and investment income.
(2) Reduction of insurance cost.
(3) Stabilization of unpredictable and cyclical insurance market.
(4) Control over your healthcare spend.
(5) Partnership with carrier and participants who share a loss prevention.