More Growth and Awareness Seen for Captives in 2024

Written By Caroline McDonald

While an increase in the number of captives has been steady over the past few years, even as rates for coverages climb, experts in the industry expect captive growth to continue. Other drivers in captive growth include the ways captives are used, the size of companies forming them, and their usage for costly medical procedures.

"Overall, activity is very robust," said Victoria Fimea, chief captive analyst at the Arizona Department of Insurance and Financial Institutions. "We see that the commercial market is such that many businesses feel it is not supporting them in their pricing and coverage. As a result, we are having a lot of inquiries about captives, and that is one trend that will continue well into 2024."

Secondly, there is an increasing awareness that captives are an alternative for risk management, she said. "And when you have that increased awareness, it generates a lot of activity and discussion amongst the service providers initially because they are the ones that will do the analysis for the business owners to determine if a captive is a feasible route."

Third, Fimea said, market fluctuations are steady, principally in the property area. "We are also seeing quite a bit with auto commercial transportation and medical stop-loss," she added. The reason is that "everything is more expensive medically and therefore is driving up premiums for employers." As they look at their medical stop-loss program, she said, they are "looking for a way to put that deductible in the captive and thus get better pricing in the commercial market. I think those three trends will continue well into 2024."

ADDRESSING GENE & CELL THERAPY

Ward Humphreys, senior vice president at Risk Strategies Company, noted that "Gene therapy remains the elephant in the room, and there are a good number of captives that have been approved for $2.5 million and above for therapies."

Zurich said in its July 31, 2023, report, "Why Employee Benefits Captives are Adding Medical Stop Loss," that high-cost medical claims have become a top concern for employers over the past decade and that since 2016, the number of health plan members with claims of $3 million or more has doubled.

Concerns about therapies include pricing for them, Humphries said. "There is also concern about premature birth, which they see as having a higher frequency. So, until gene therapy starts hitting with more frequency, it will be looming out there."

Questions include "how active doctors will be in terms of prescribing, whether facilities will have the capacity for them, and how many of these therapies can they do in a month?"

An example, Humphreys said, is gene therapy as treatment for extremely rare conditions. "Some of them are very complicated, like sickle cell therapy, which requires a 30-60 day stay to remove cells. That all remains to be seen," he said.

Another concern is the therapies that will be introduced. "Instead of it being for hemophilia, which is maybe 20,000 people, they are going to introduce them for broader conditions," he said. "So, you'll still have that $2 million price tag, but instead of it being for a population of 20,000, it will be for a population of one or two million and a much broader potential risk."

The other big one, Humphreys said, is cell therapy, "which is more commonly directed towards cancers."

A reinsurer he spoke to "said they have had a large uptick in cancer claims. We are not sure what is driving that, but we have also heard it from other sources," he said.

The incidents of more intensive cancer are also higher, Humphreys noted. "It used to be that when most cancers were diagnosed, someone was at stage-one or two, and now it seems they are diagnosed at stage-three or four. So, much more aggressive and costly treatment is required."

A possible reason for this, he added, is that the cancers are not identified as early. Another is that "some types of cancer are more aggressive than what is typically seen." Regarding captives for this, "that may be a broader theme that the market will continue to watch," Humphreys said.

GROWING INTEREST IN CAPTIVES

Jeffrey Fitzgerald, Managing Director, Strategic Risk Solutions Benefit Partners at Strategic Risk Solutions, and chair of SIIA's Captive Insurance Committee, said that overall, "We're seeing more focus on going down-market in terms of group size, more on a program basis."

For the most part, "you're still selling each group individually, using captives to get larger blocks of oftentimes smaller groups," he said.

"The growth of heterogeneous employee benefit major medical group captives has been the largest success story over the last ten years in the captive world and the employee major medical benefits world," Fitzgerald noted. "This is continuing, even though there are still huge pockets where they are not used. Or there is a lack of education."

Humphreys said that the popularity of self-funding of small groups also continues. "While the self-funded market for benefits has been $100,000 to $250,000 and above," he said, "Now we are seeing a movement of groups below $50,000 self-funding their employee benefits – not necessarily with a captive. There are infinitely more small groups than groups above $200,000, so it's been a big market move."

Potentially, he said, these groups could start looking at captives.

Fitzgerald observed that decisions on where to locate captives "tend to be more geographic than anything. Brokers are the drivers of this growth, and most brokers are more specific to their geography than to industries."

Another thing, he noted, is that there are increasingly two different types of buyers. "There is the buyer that really wants to get involved in all the cost drivers of their program and is therefore very engaged in the choices they may have."

The other group relies on brokers, and the captive is "put together to contain all of that for them. The captive industry must be aware of that and provide solutions for both," Fitzgerald said.

FUELING INTEREST IN INSURANCE CAREERS

It's predicted that the insurance industry will grow by about 9 percent annually, reaching $8.4 trillion by 2026, according to Statista. While the industry is growing, however, the employment rate remains stagnant, with only three million employed by the industry – about 3 percent more than in 2020, according to Marketplace. This illustrates the need for new interest and talent in the industry.

Fimea, who also serves as an adjunct professor at Northern Arizona University in Flagstaff in their Risk Management and Insurance certificate program, is working to change this.

"I teach the senior year Capstone course for the RMI Certificate," she said. "We graduated our first students with their RMI certificate in May."

An important trend she is seeing is the industry working to "open the eyes of college students about the opportunities that exist in the RMI industry, specifically in captives."

She noted, "In my class, students are made aware of captive insurance companies. Indeed, it is a new topic for the students."

Her students, she said, "find it intriguing that a corporate insured can own its own insurance company."

The industry is also actively working to attract more students to careers in insurance. For example, several large captive and association conferences "have competitions for scholarships that are offered for college students, and that trend I see continuing in 2024," Fimea added.

This is "needed to ensure that people out there have interest in joining our industry, building a career in it, and contributing to the industry," she said.

As an adjunct professor, Fimea added, "I can tell you that when you work with college students on risk management and captive insurance, they get really interested. It's tied to current events, such as a major storm and its impact on pricing. They hadn't realized that insurance is right on the front lines." ■

Caroline McDonald is an award-winning journalist who has reported on a wide variety of insurance topics. Her beat includes in-depth coverage of risk management and captives.