The recent worldwide financial meltdown left many business sectors of our economy with a rash of complex challenges. While the long-term effects of this meltdown will only become apparent with the passage of time, short-term effects can be seen everywhere. For example, one of the most seriously affected sectors was the social services industry. Social services agencies typically deliver health and human services to the neediest of our citizens who may be suffering from financial, emotional or health predicaments. For years, these organizations have played an essential role by forming partnerships with local, state and federal governments to assist in repairing lives.

The financial calamity caused these social services agencies to incur several key problems. Initially, the crisis left many people in the United States and worldwide in total financial disarray. Everyone from children living in poverty, the families of military veterans and older Americans with serious health and/or financial woes were arriving at the agencies during a time when their needs for services were at an all-time high. Referrals to social services increased as did the intensity of the issues faced by many of these
consumers. And this continues today, while at the same time many of these social services agencies are feeling the effects of reduced budgets that resulted in some of the basic services that were previously available being reduced or eliminated. Basic services such as client education, information, referral and advocacy are typically considered as “non-categorical case management services,” and as such are frequently not compensated by any government contracts or agreements. Reductions of these services not only required agencies to continue to attempt to deliver high-quality services with reduced resources but also made it almost impossible to maintain the non-compensated yet incredibly important prevention work with clients.

On top of all the other issues surrounding the plight of social services organizations, the insurance industry has not been too keen on providing suitable insurance coverage. While some carriers have managed to find a way to make money with this class, the majority of them are quick to shy away from it. The problem, in a nutshell, is that the social services agencies have a number of unique exposures that have made them less than ideal insurance candidates. Further, as Dennis Silvia, president of Cedar Consulting, LLC, explains, “This is an industry that had never really had this kind of risk management and loss control attention leveraged against it.” Bottom line, despite the fact that the overall insurance market has been soft, social services organizations have not shared proportionally in the pricing reductions. At the same time, few, if any, of these organizations were aware that they have options in the alternative risk transfer (ART) market.

However, in 2006, a group of Boston-based agencies began considering the alternatives that were available. They initially hired a risk manager, Robert Vermes, chief executive officer of The Captive Advantage, LLC (TCA), to oversee the program’s development. They also retained the services of Silvia and Cedar Consulting to study the feasibility of one ART solution, a captive insurance company. They wanted to “fully explore the opportunities offered by a group captive and determine if it was appropriate for the social services industry,” notes Vermes. When the feasibility work was completed, it pointed to a group captive as a potential successful solution for their insurance-related issues.

Despite the lack of underwriters willing to consider this class of business, one market, Philadelphia Insurance Company, had managed to find a way to underwrite this business profitably. Several of the social services agencies had already established a relationship and were using the insurer to write the coverage. It was determined that the group would approach Philadelphia regarding the feasibility of the captive concept. The social services industry was not familiar with many of the essential insurance concepts and certainly not the captive concept. Even today, “this may be the only group captive that has been formed for this market segment,” Vermes points out. This educational effort was a critical early step that helped “the individual agencies’ CEOs and CFOs gain an understanding of basic insurance principles and more specifically captives, and as a result, become more sophisticated insurance buyers.”

The education of the social services agencies was not the only educational area that needed additional help. The other major group that has required specific instructions about captives was the insurance agents and brokers who provided coverage for the social services agencies in the group. For the most part, the agents and brokers had a significant knowledge gap concerning the captive concept. This is important because “the program was open to local agents as opposed to having just one agency being the exclusive sales distributor,” says Silvia. “We found it extremely important to allow the social services organizations to retain their local insurance agents and brokers.”

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themselves,” says Silvia, “so Robert and I are both available to assist in the captive selling process.” Thus, even agents/brokers who do not have extensive knowledge of the ART market will be able to work with TCA.

At the end of the day, Silvia points out, “if the agent/broker is not comfortable with the captive concept, the outcome is likely to adversely affect the captive. We do not want agents/brokers who do not understand the concept doing the marketing alone because there has to be a clear and consistent sales message.” This really just comes down to the fact that “all parties must be aligned from an interest prospective.”

The linchpin to the ongoing success of TCA is the risk management program. The personal involvement and attention by TCA’s chief executive officer has allowed the captive to get off to a good start. This involvement and attention has quickly spread to the CEOs and CFOs of the member companies as they work towards a “best practices” risk management program, notes Vermes. “The success of the captive is the direct result of the collaborative effort of its members. We believe that the value of TCA’s program lies with our members and their ability to manage their risks.” While some of these members may compete for clients, they see the wisdom of a group solution to a common problem.

“Today, the members have even taken this concept one step further, via group purchasing other goods and services,” he points out.

For the most part, “this is an industry that has not had much positive attention from the insurance sector,” but continues to be pretty much left to the vagaries of the insurance marketplace, Silvia says. “But through the ownership of TCA, the members have established a method of controlling their own destiny.” He goes on to say, “This is the real driving force behind this approach.”

Vermes also points out that “now the members are beginning to see the payoff from that kind of investment of time and resources.” That’s the big takeaway, says Silvia. “Leveraging risk management can make a difference, and in the case of TCA, it has.”

There is a social aspect to good risk management as well. “While the members are in the business of caring for people, risk management has a similar goal and when successfully implemented, risk management is a benefit to the whole community,” Silvia continues. This illustrates the point yet again: Commitment to quality risk management can provide a significant improvement in the loss picture of any group. The captive is the ideal focal point for developing a strategy that includes an aggressive risk management program to better control the members’ destiny. Mid-sized agents/brokers should have already begun seeing that the good accounts in today’s marketplace are leaving the conventional property and casualty market in favor of alternatives that will reward them for good loss experience and TCA is one way for them to participate in this shift.

The author

Michael J. Moody, MBA, ARM, is the retired managing director of Strategic Risk Financing, Inc. (SuRF), a firm that was established to provide consulting services to captive and other alternative risk transfer mechanisms. As a regular columnist, he continues to actively promote the benefits of the ART market by providing current, objective information about the market, the structures being used, and the players involved.