

HYLANT DIGITAL ROUNDTABLE

Insurance Solutions for Child Welfare Organizations:

One Size Does Not Fit All

JUNE 24, 2020

HYLANT

HOUSEKEEPING



45 Minutes **–** Insurance Solutions for Child Welfare Organizations – One Size Does Not Fit All



15 Minutes **–** Questions and Answers

AGENDA

1. *Introductions*
2. *State of the Commercial Insurance Market*
3. *Laws, Regulations & Social Change*
4. *Identified Solutions*
5. *Closing Q&A*

INTRODUCING TODAY'S SPEAKERS



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STATE OF COMMERCIAL INSURANCE - 2020

OVERALL MARKET – Q2 2020

Unrest in overall market due to unpredictability of COVID-19

-- Loss impact will be profound – estimated to be +$100B

- London and Bermuda-based insurers were already experiencing higher-than-average rate increases
- Capacity in general was down – NOW EVEN FURTHER
  - Insurers required to be more selective on risks
  - Not engaging in certain industry segments *(Health & Human/Social Services)*
- Submission activity has drastically increased for underwriters
  - Market conditions forcing them to prioritize workloads

MARKET PRICING TRENDS



Casualty (GL/PL, Abuse & Umbrella) lines are seeing between 15% to 50% rate increases depending on loss experience

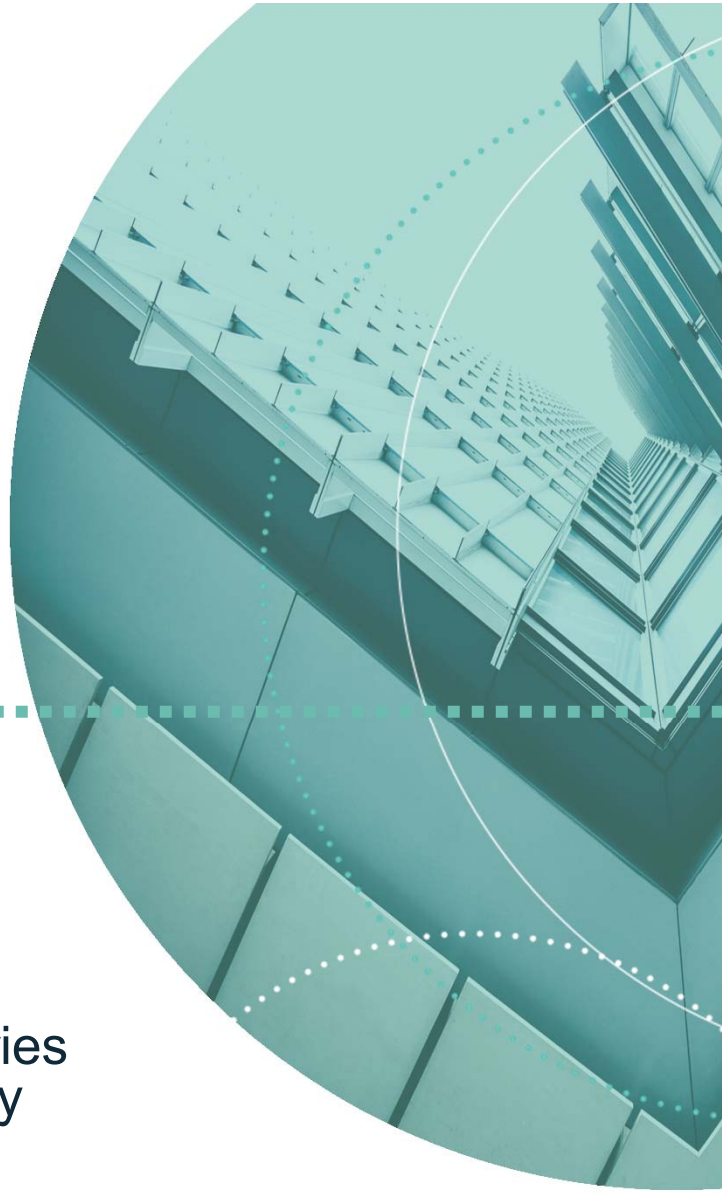


Property insurers seeing an increase of treaty costs and facultative reinsurance costs, causing strain on other segments of their books

FACTORS TO CONSIDER:

- *U.S. economy*
- *Possible resurgence of COVID-19 in the fall and winter*
- *Property damage from protests*
- *Predictions of a higher than average hurricane season*

COVERAGE TRENDS



INSURERS ARE CHANGING

- Policy language continually crafted to restrict coverage for evolving risks
  - *Communicable disease exclusions*
- Limits offered continually reduced
- Unwavering carrier exodus in certain industries where coverage is either non-existent or very limited
  - *Underwriters expecting to face frequent and severe losses*

MARKET OUTLOOK: 2020 AND BEYOND

- The market will continue to firm with no significant changes expected in the short term

  (Estimated 2-3 year hard market)

- Frequency and severity of losses – previously tied to “social inflation” – now tied to COVID-19 and the ensuing economic losses

- Capacity is shrinking domestically and in London and Bermuda

- Reinsurance rates for insurers up by 25% causing carriers to pass along costs to insureds

LAWS, REGULATION & SOCIETAL CHANGE

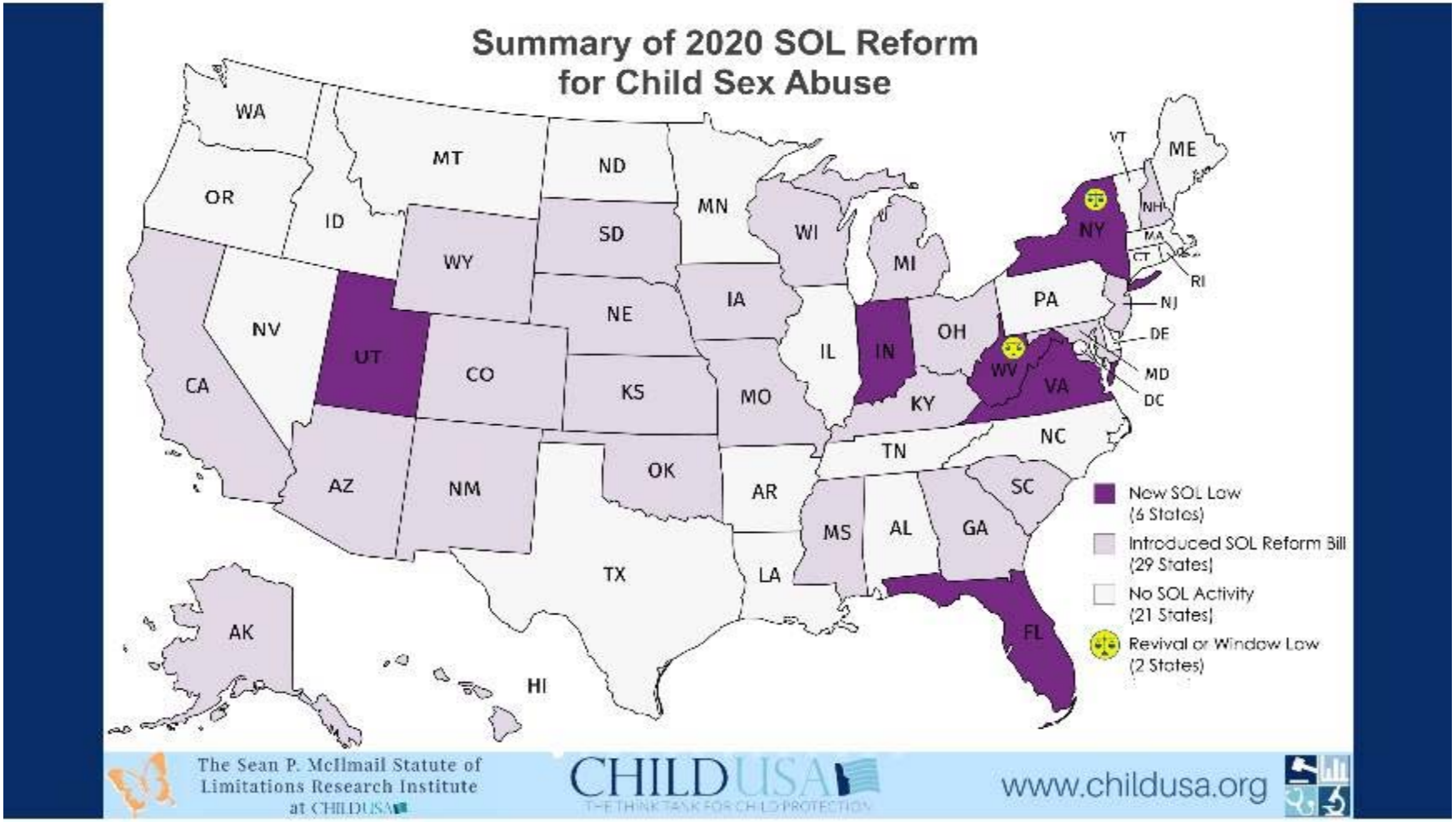
LAWS

- State Statutes of Limitation (SOLs) for Child Abuse
  - Various states extending criminal and civil SOLs and opening up revival windows for expired claims
  - *https://www.childusa.org/2020sol*

- Family First Prevention Services Act (FFPSA)
  - Implementation on various state level critical to maintain funding
  - Timing is poor as insurance / risk management expenses are rising
  - https://www.congress.gov/bill/115th-congress/house-bill/253/text?q=%7B%22search%22%3A%5B%22family%20first%20prevention%20services%20act%22%5D%7D&r=1

LAWS

At a Glance:



SOCIETAL CHANGE

- COVID-19
- Increased litigation enhanced by social media
- "Social Inflation" – *"Someone must pay for this"*
  - *Catholic Church, Penn State, Boy Scouts, etc.*
- Reptilian Approach
  - *Big business (defendant) = Driven by profit*
  - *Victim (plaintiff) = Innocent subject of greed and gross negligence*
- Class Action Lawsuits: *(3/24/2020)*

  https://www.usnews.com/news/best-states/arizona/articles/2020-03-24/supreme-court-wont-review-arizona-foster-care-lawsuit
- Venue Shopping



WHAT ARE THE SOLUTIONS?

POTENTIAL SOLUTIONS



Risk Management



Legal Defense



Industry Advocacy



Alternative Risk Transfer Methods

RISK MANAGEMENT

Professional Liability

- *Dashboard Analytics*
- *Electronic medical records*
- *Employee training – and tracking progress*

How do you strengthen the standard of care?

Develop industry specific experience ratings" (long-term care industry)

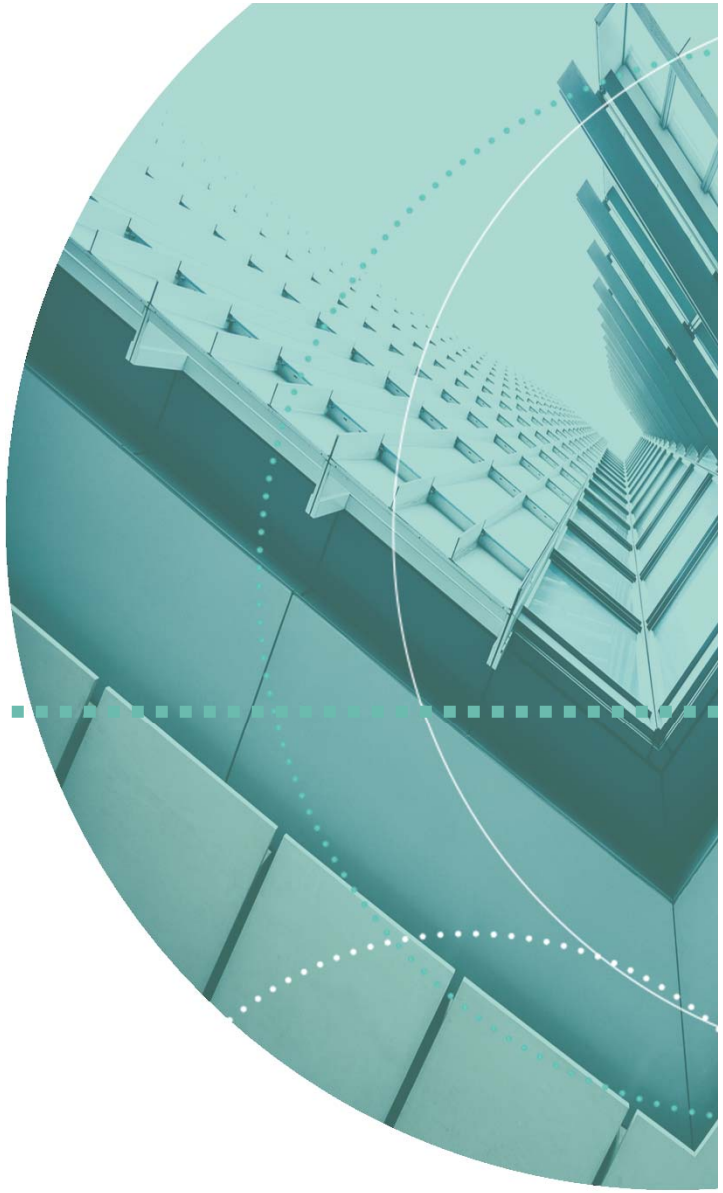
Employment Practices

- *Employee Screening*
- *Abuse Training*
- *ALICE*

Auto Liability

- *Telematics*
- *Driver Screening*

LEGAL DEFENSE



DEVELOP THE RIGHT RELATIONSHIPS

- Develop and retain strong legal relationships prior to a claim or crisis
- Importance of strong relationship in each distinct venue
- Critical for insurance broker to align with insurer

INDUSTRY ADVOCACY

- Aligning with strong state and national advocacy groups
  - *Strength in numbers*
  - *Collaboration (common in your industry – not in others)*
  - *Looked on favorably by insurers*
- Tort Reforms?
  (Long-Term Care Industry)

ALTERNATIVE RISK TRANSFER METHODS

- Critical to invest in options that reside outside of the traditional insurance transaction

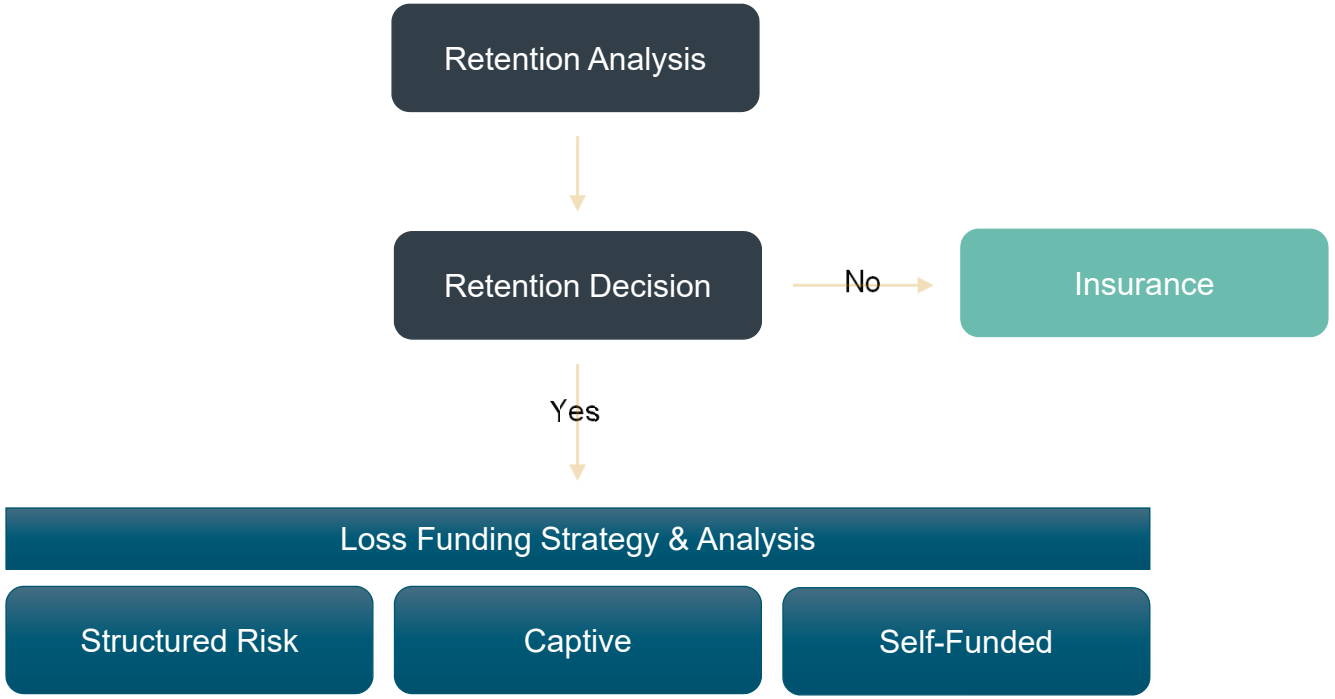
- ***WHY?***

  - *Market conditions (cycle)*
  - *Frequency/severity – perceived unpredictability of nuclear judgments*
  - *Catastrophic events leading to higher re-insurance costs*

    - *COVID-19 Economic Impact*
    - *Hurricanes, Floods, Fires, Tornadoes, etc.*
    - ***Nursing Home Industry launching RRG's in early 00's in response to the same series of events***

      - *9/11 along with the same series of other CAT events*

ALTERNATIVE RISK DECISION MAKING

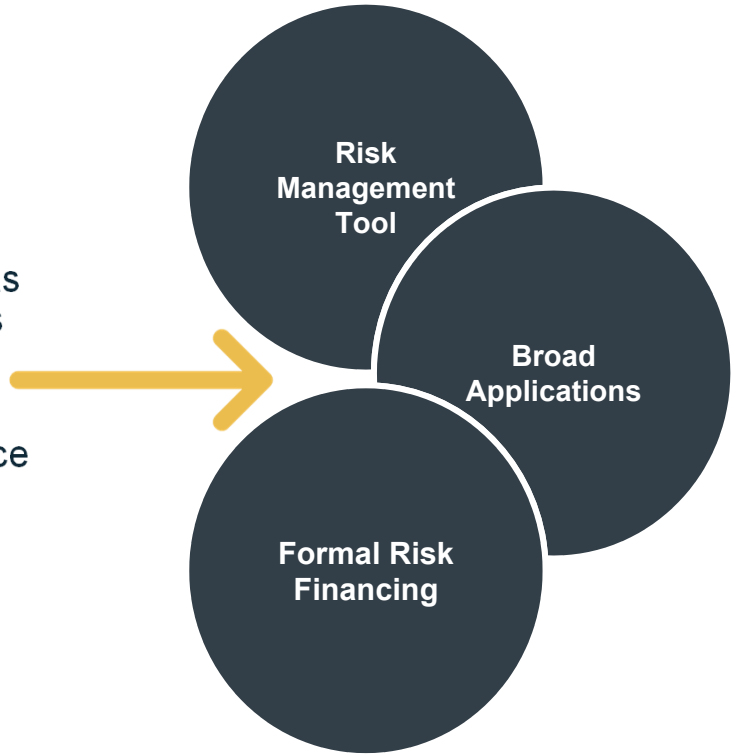


WHAT IS A CAPTIVE?

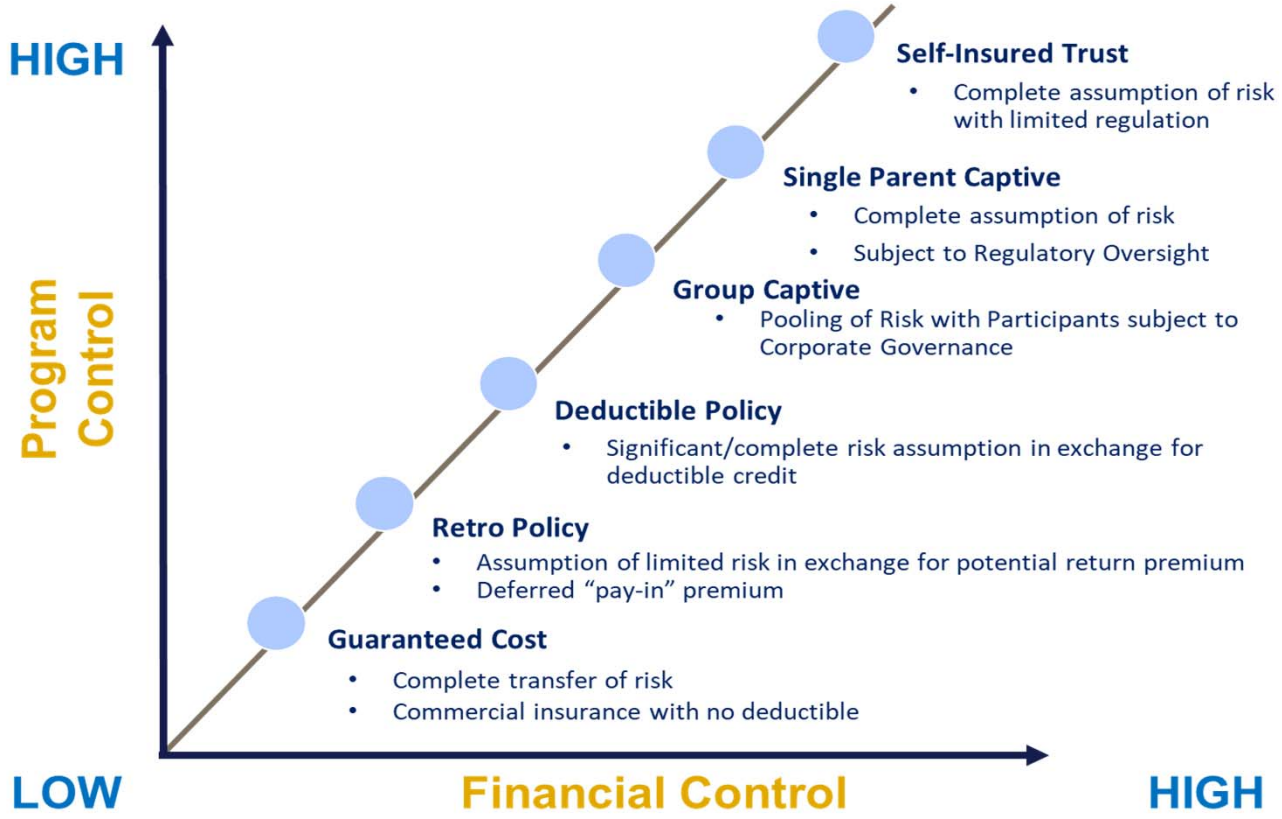
A licensed insurance company owned and controlled by those it insures

Insures or reinsures the risk of its parent(s) or affiliated companies

Formalized mechanism to finance self-insured risk



RISK APPETITE SPECTRUM



WHY CONSIDER A CAPTIVE?

Financial

- Potential short- and long-term savings
- Financial reward for being better-than-average
- Capture investment returns
- Remove traditional insurer's profit loading

Control

- Ability to better manage premium volatility from year-to-year
- Power to reduce costs over time by controlling losses
- Be rewarded for good loss prevention and claims management

Flexibility

- Ability to craft coverages to meet specific insured's needs
- Options for customized value-added services
- Insulated from market conditions; address insured needs, not the insurance market

CONSIDERATIONS



- Incurring unexpectedly large losses
- Compliance issues
- Meeting and maintaining capital requirements
- Competing uses for available capital
- Accessing capital for competing needs
- Risk Sharing

- Distributing profits
- Restrictions on selling or transferring ownership
- Focus and commitment must be long term
- Overcoming the learning curve
- Winding down the program

TARGET MEMBER PROFILE

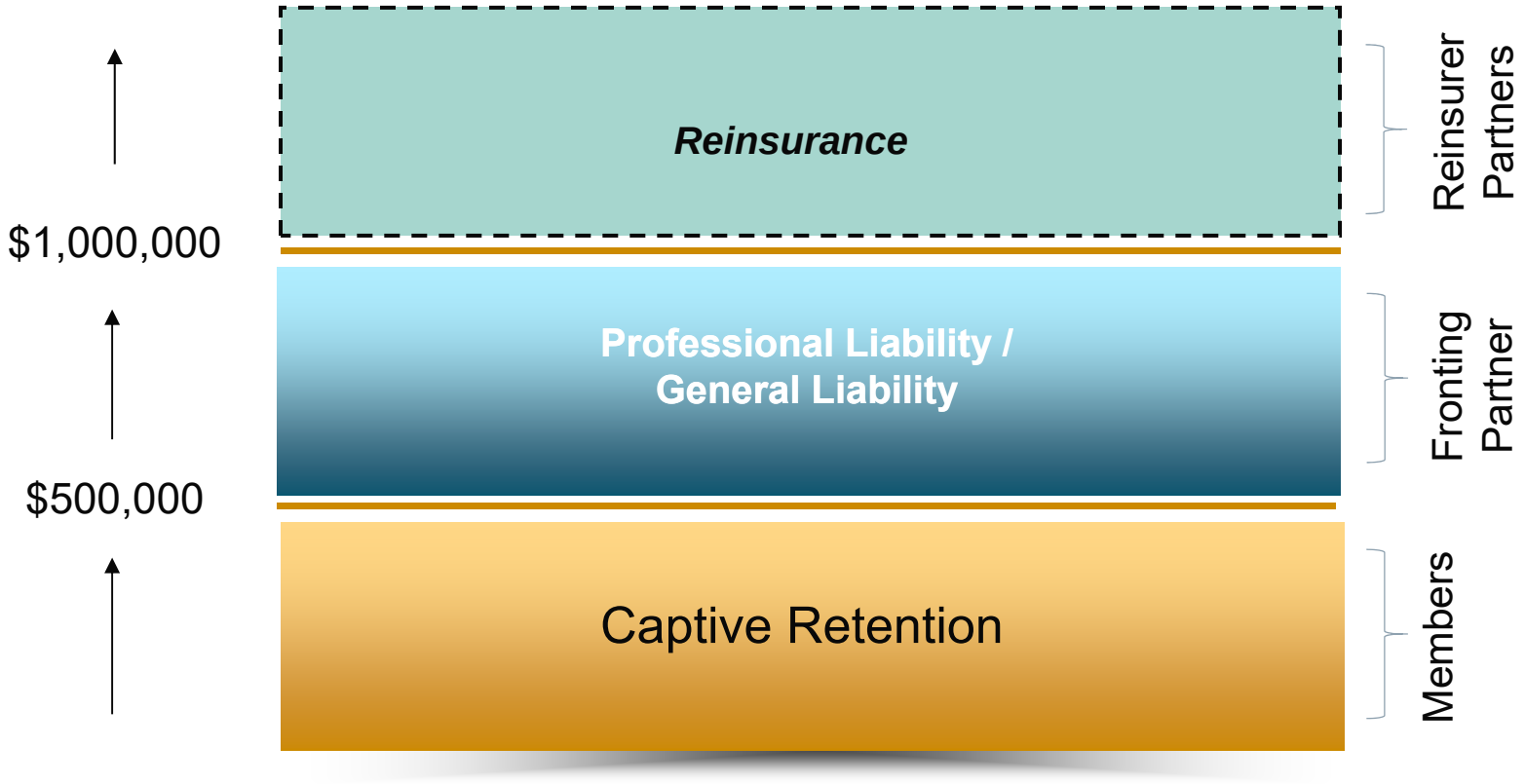


Strong safety and risk management culture

Strong balance sheet and consistent cash flow to ensure obligations can be met

Better than average claims reflecting risk management focus

GROUP CAPTIVE - EXAMPLE



HOW DOES IT WORK?

- 100% Member Owned
- Equity across the membership
- Active member involvement
  - Board meetings
  - Committees
  - Board of Directors
- Best in class risk and loss control services

CAPTIVE EVALUATION PROCESS



• 01 •

Feasibility Analysis



• 02 •

Implementation



• 03 •

Captive Management

FEASIBILITY ANALYSIS



Evaluate

- Exposures
- Coverage needs
- Cash-flow requirements
- Current program

Analysis

- Domicile analysis
- Ownership and structure analysis
- Actuarial analysis
- Participation Agreement
- Risk Sharing

Considerations

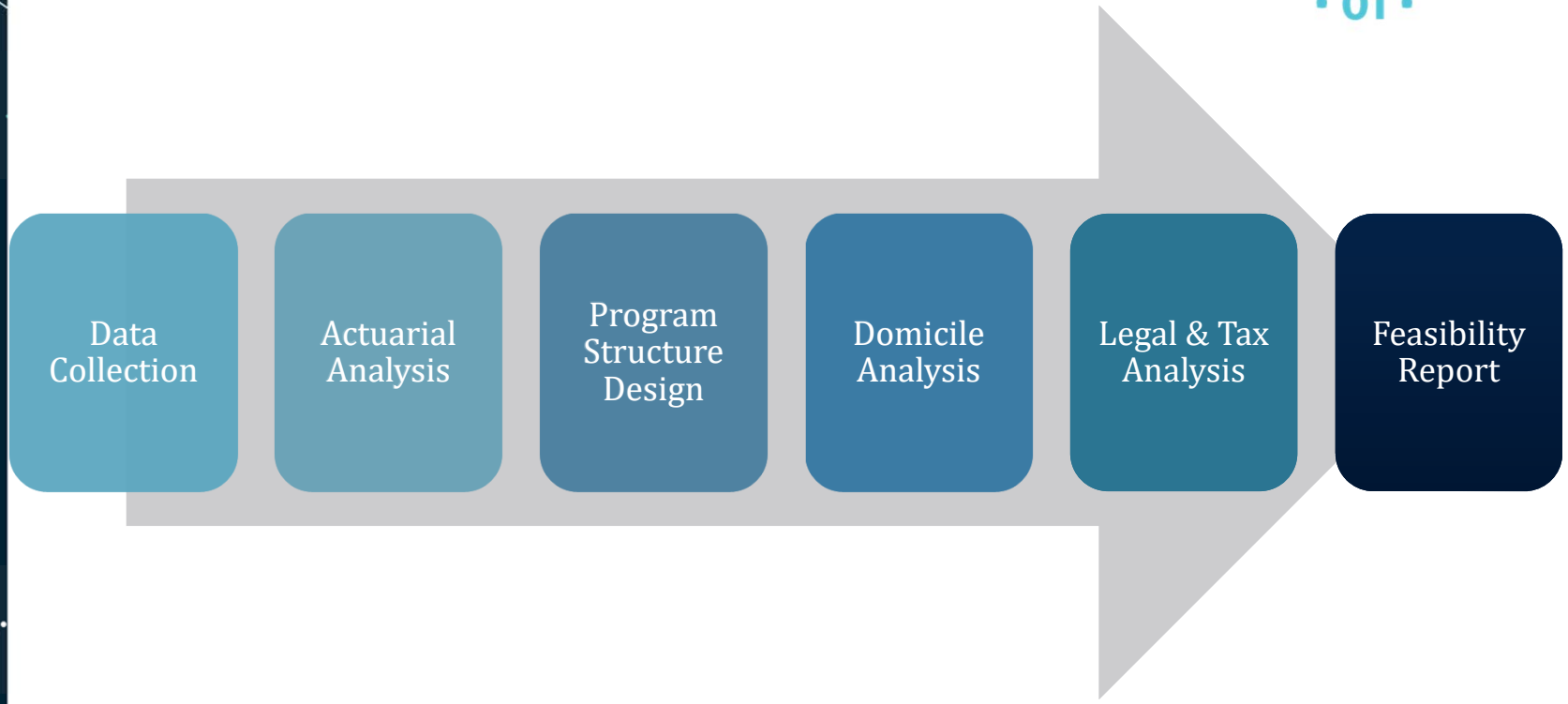
• 01 •

- Investment considerations
- Regulatory and legal considerations
- Federal and state tax considerations
- Cost considerations

Implementation plan for execution

TIMELINE – PHASE 1

01



From kick-off to issuance of the Phase 1 Feasibility report is estimated four to six months

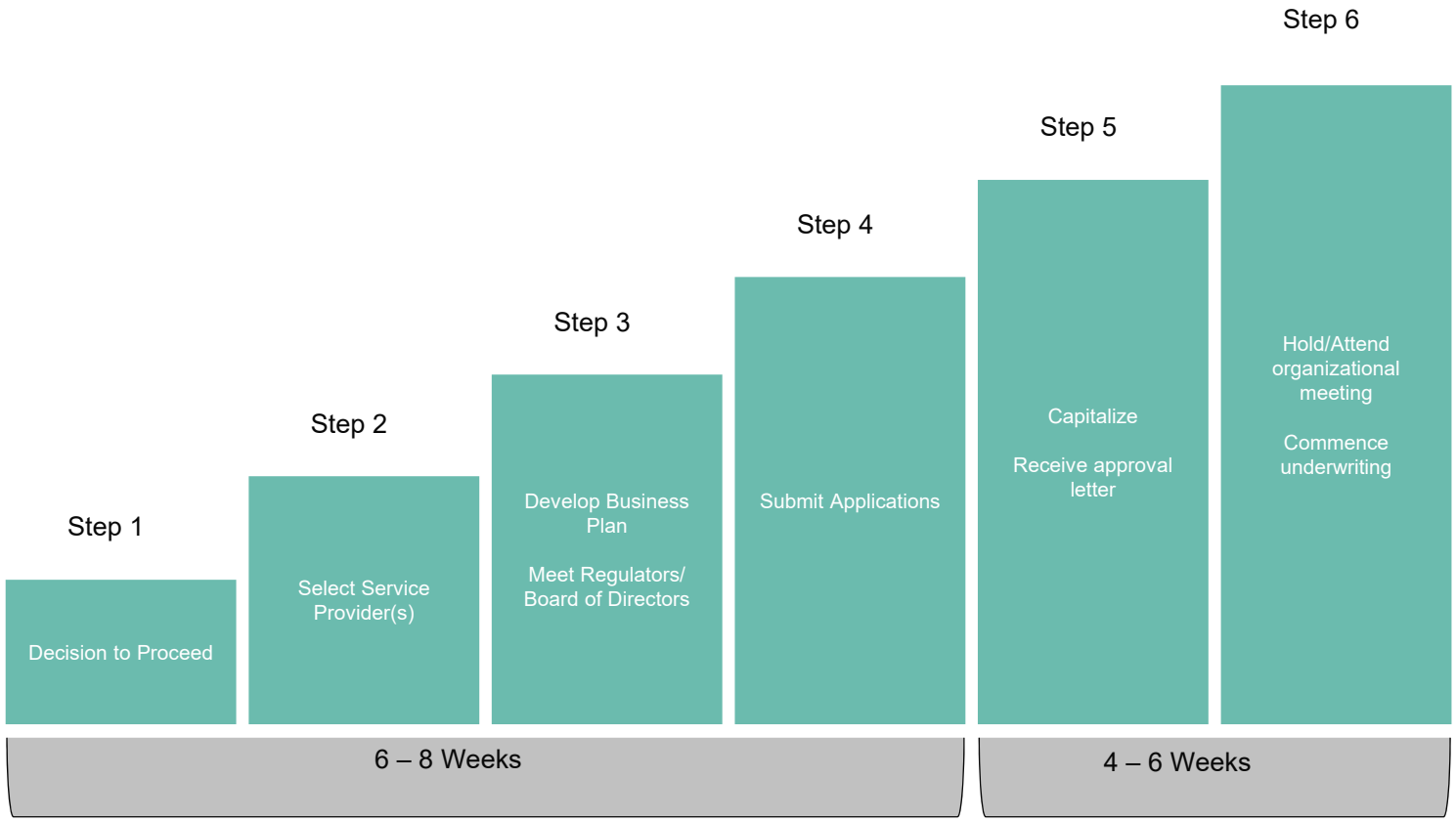
COSTS – PHASE 1 - FEASIBILITY

Feasibility Work Performed	Low End	High End
Hylant Captive Consulting	$175,000	$200,000
Legal	$25,000	$35,000
Actuarial	$50,000	$65,000
Total	**$250,000**	**$300,000**

Example: 20 members participate in the Feasibility Phase 1 = $12,500 - $15,000 per member

IMPLEMENTATION

• 02 •

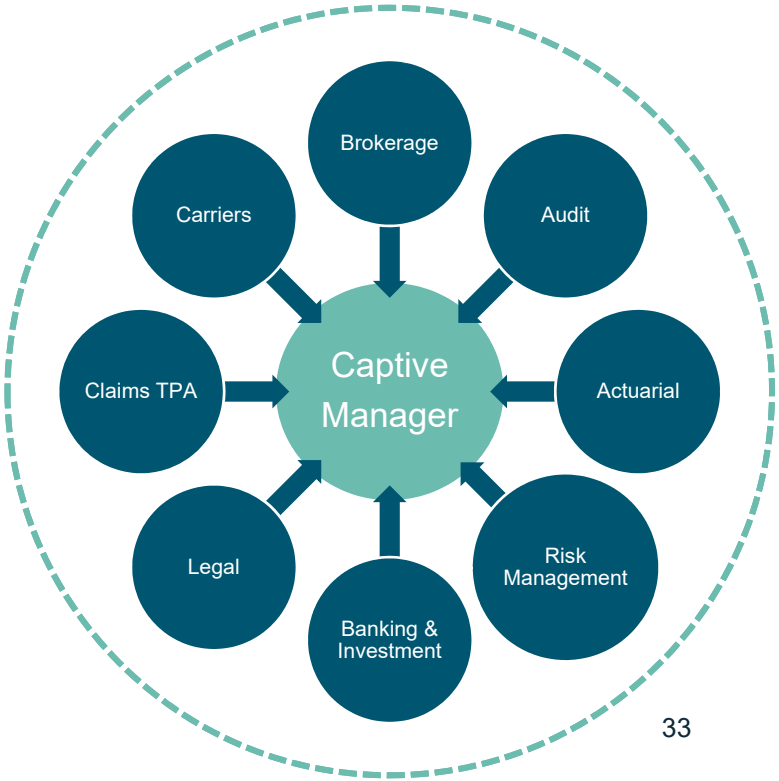


MANAGEMENT & OPERATIONS

• 03 •

- Coordination of all service providers
- Liaison with domicile regulators
- Coordinate and handle board meetings
- Coordinate all renewal processes
- Ongoing financial, underwriting and corporate administration of captive

From **start** to **finish**, we work tirelessly to guide you through the captive process.



QUESTIONS