





## Some non-Workers Comp exposures we manage through Alternative Markets

**Professional Liability** ( SIR up to \$20 million )

**Some participation in PL excess layers**  
( e.g, 10% of \$100M X \$60M )

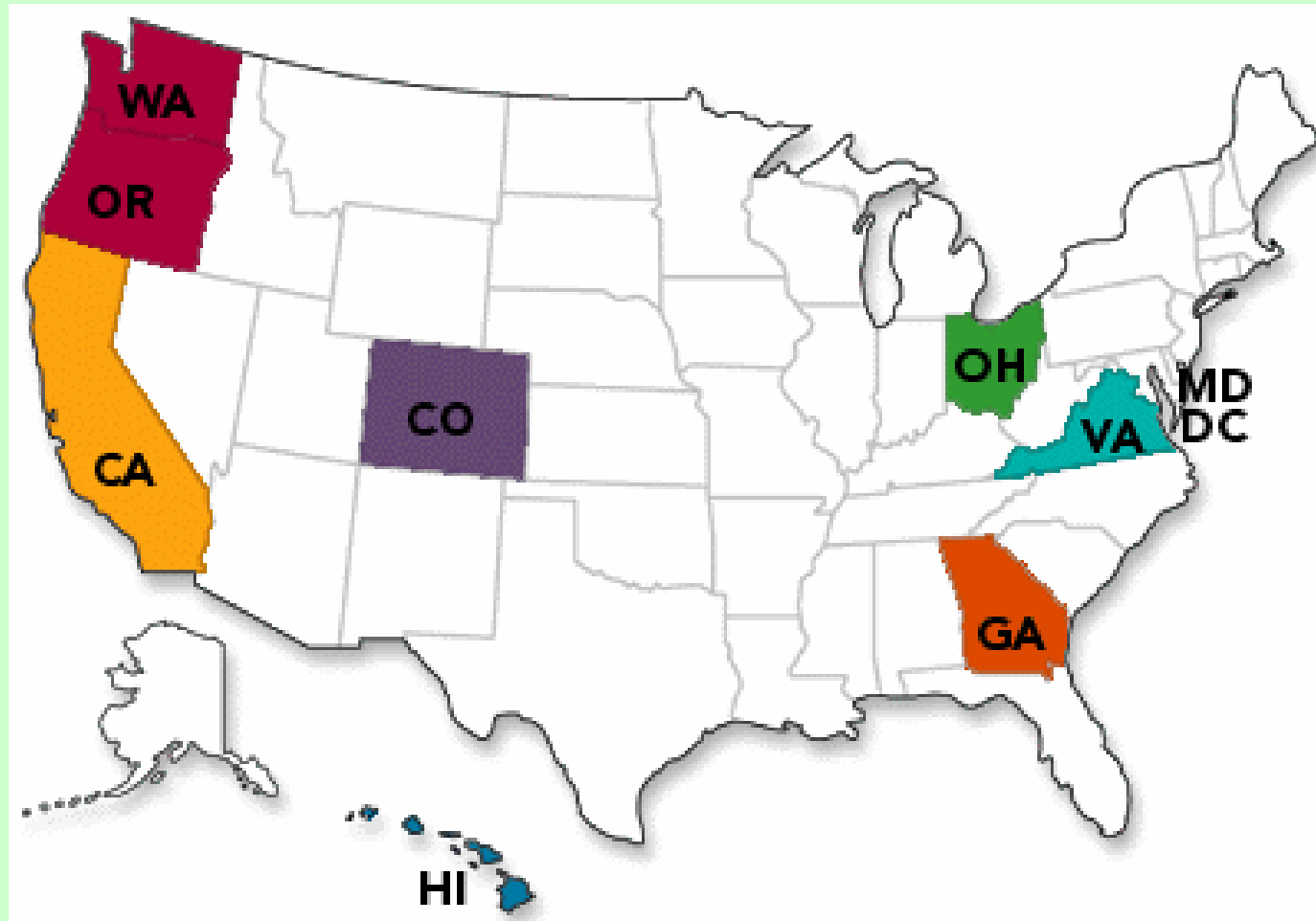
**Property Exposure** ( including some earthquake )

**Terrorism**

**Kaiser's primary vehicles:**

- Self-insurance**
- "Pure" Captives**

## Kaiser Permanente Regions

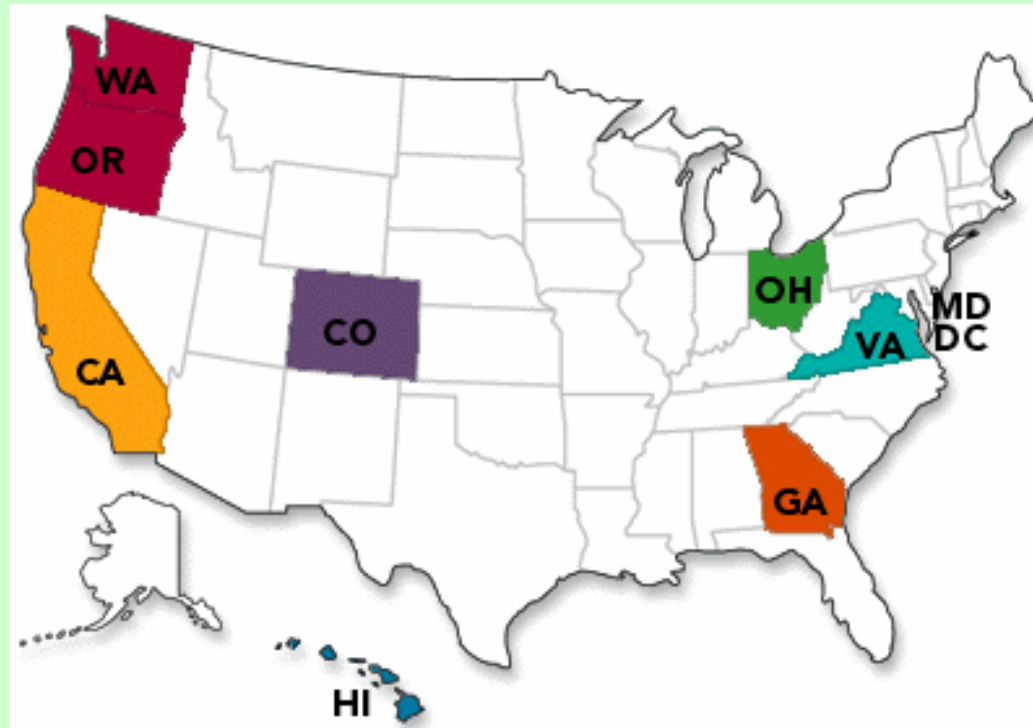


## Kaiser Permanente Workers Comp Exposure (FTE)

Northwest  
8,000

**California**  
**120,000**

Colorado  
5,000



Ohio  
2,000

Mid-Atlantic  
6,000

Georgia  
2,000

Hawaii  
4,000

**California State Employees**  
**220,000**

**Safeway (Nationwide)**  
**200,000**



## Kaiser WC Risk Financing Strategy & Process

# California



## Environment

- Huge exposure base
- Clear case for SIR
- Focus of Kaiser Execs and External Auditors

## Kaiser WC Risk Financing Strategy & Process

# California



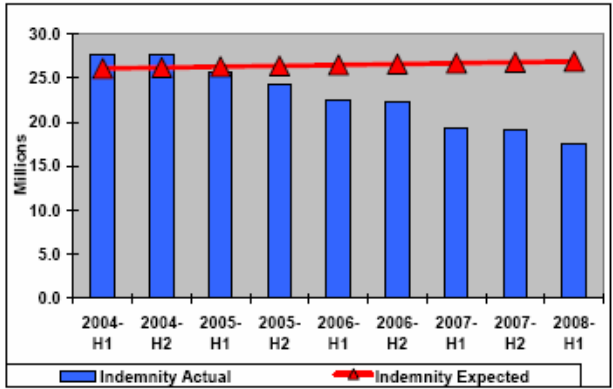
## Strategy & Process

- SIR \$5 million retention
- External Actuarial Services
- Internal Mgmt Info Reports
- Expense Allocation  
( Med Center & Business Unit )
- Excess Insurance (catastrophe)
- Pay Various DWC fees  
( Admin, Insolvency, etc. )

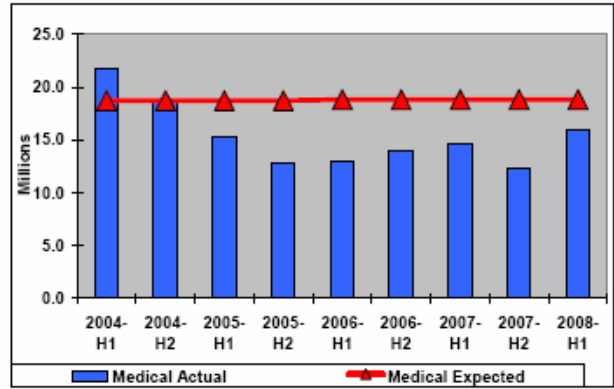
# Kaiser WC Risk Financing Strategy & Process

## Some slides we include in a quarterly Management Information Report

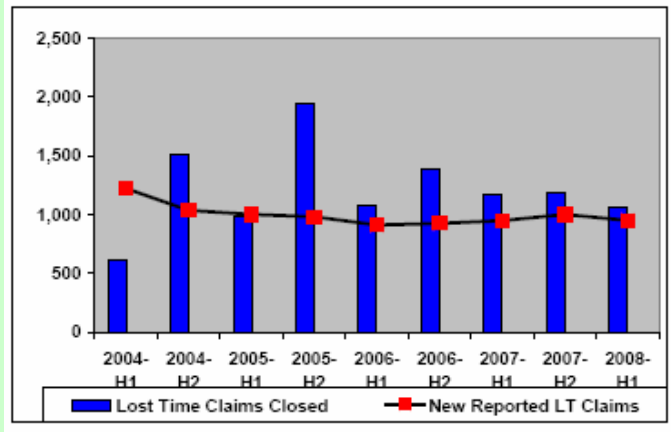
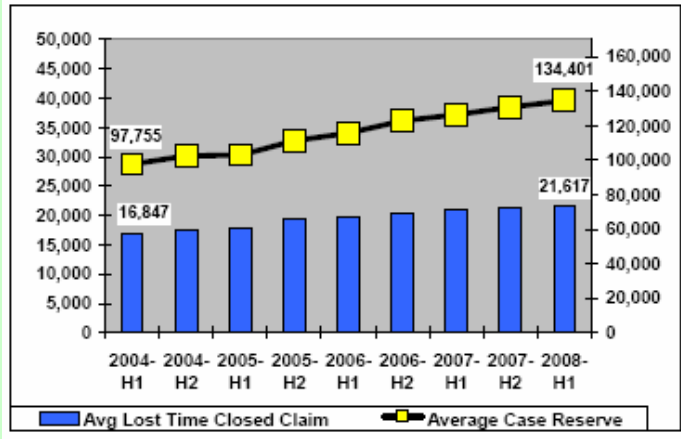
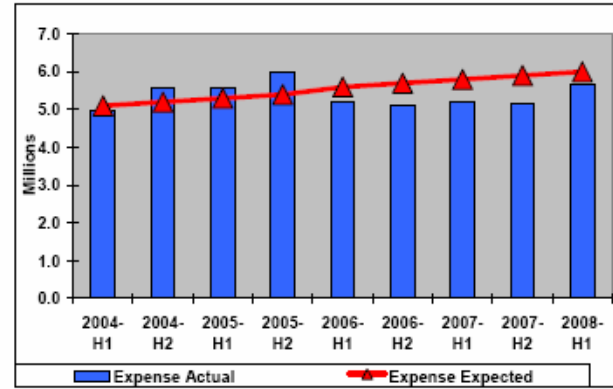
Indemnity Paid



Medical Paid



Expense Paid





## Kaiser WC Risk Financing Strategy & Process



## Northwest & Hawaii



### Environment

- Medium size exposure
- Qualify for SIR
- Enough claim data for actuarial analysis
- Hawaii is tough environment





## Kaiser WC Risk Financing Strategy & Process



## Northwest & Hawaii



## Strategy & Process

- SIR \$500,000 retention
- Internal Annual Actuarial Report
- Excess Insurance
- Internal Mgmt Info Reports
- External Claims TPA
- Pay Various DWC fees  
( Admin, Insolvency, etc. )



## Kaiser WC Risk Financing Strategy & Process

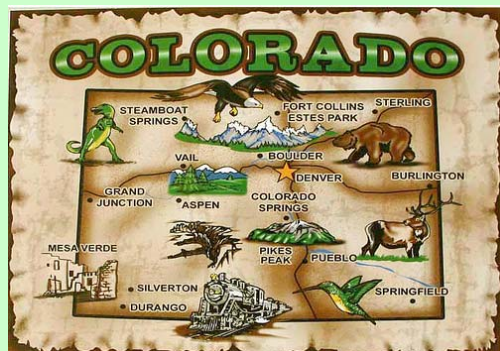
# Colorado Ohio &

## Environment

- ❑ Small exposure base
- ❑ Qualify for SIR

## Strategy & Process

- ❑ SIR \$500,000 retention
- ❑ Q&D Actuarial Report
- ❑ Excess Insurance
- ❑ External Claims TPA
- ❑ Pay Various DWC fees  
( Admin, Insolvency, DWRF )



5,000 FTE

2,000 FTE



# Kaiser WC Risk Financing Strategy & Process

## Mid-Atlantic & Georgia

### Environment

- Small exposure base
- and/or don't qualify for SIR
- and/or exposure crosses jurisdictions

### Strategy & Process

- Use a Captive



6,000 FTE



2,000 FTE



## What is a captive ?

- ❑ **A special purpose insurance entity established in order to fund and manage the loss exposures of its parent organization (s)**
- ❑ **A legitimate excuse for setting up business meetings in exotic locales**





## **Read this when you get back to your office...**

### **Special Purpose Vehicle for Self-insurance**

**Captives allow firms to retain risk and still satisfy insurance regulatory requirements and demands from third parties.**

**For some lines of business a captive can operate without restriction, but for workers' compensation in the U.S., a captive typically must go through a fronting process. They pay a fee, usually somewhere between 5 and 15 percent, to “participate” in the risk. The fronting insurer issues the required policy using its “paper” (insurance license) and then the company "cedes" (sends some or all the risk and some of the premium) to the captive.**

**If there is a loss, the captive provides the funding to pay the loss even though the contractually responsible party from the injured parties perspective is the commercial "front".**



## **Kaiser's WC Captive - Oak Tree Assurance, Vermont**



- Established years ago for reasons unrelated to WC... Fronting insurer for excess professional liability and gap property insurance placements
- Currently used as primary vehicle for insuring workers compensation exposures in non self-insured states
- Retains primary layer (up to \$500,000). The fronting carrier provides excess coverage.



# Kaiser WC Risk Financing Strategy & Process

## Mid-Atlantic & Georgia

## Strategy & Process

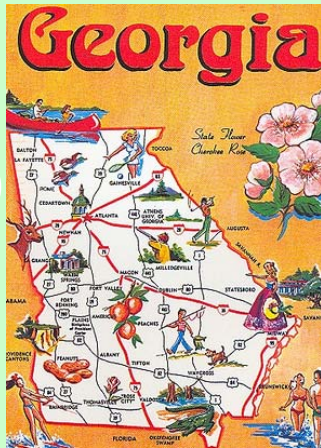


6,000 FTE



- Use a Captive
- Fronting Carrier
  - Provides License (paper)
  - Provides Excess Insurance

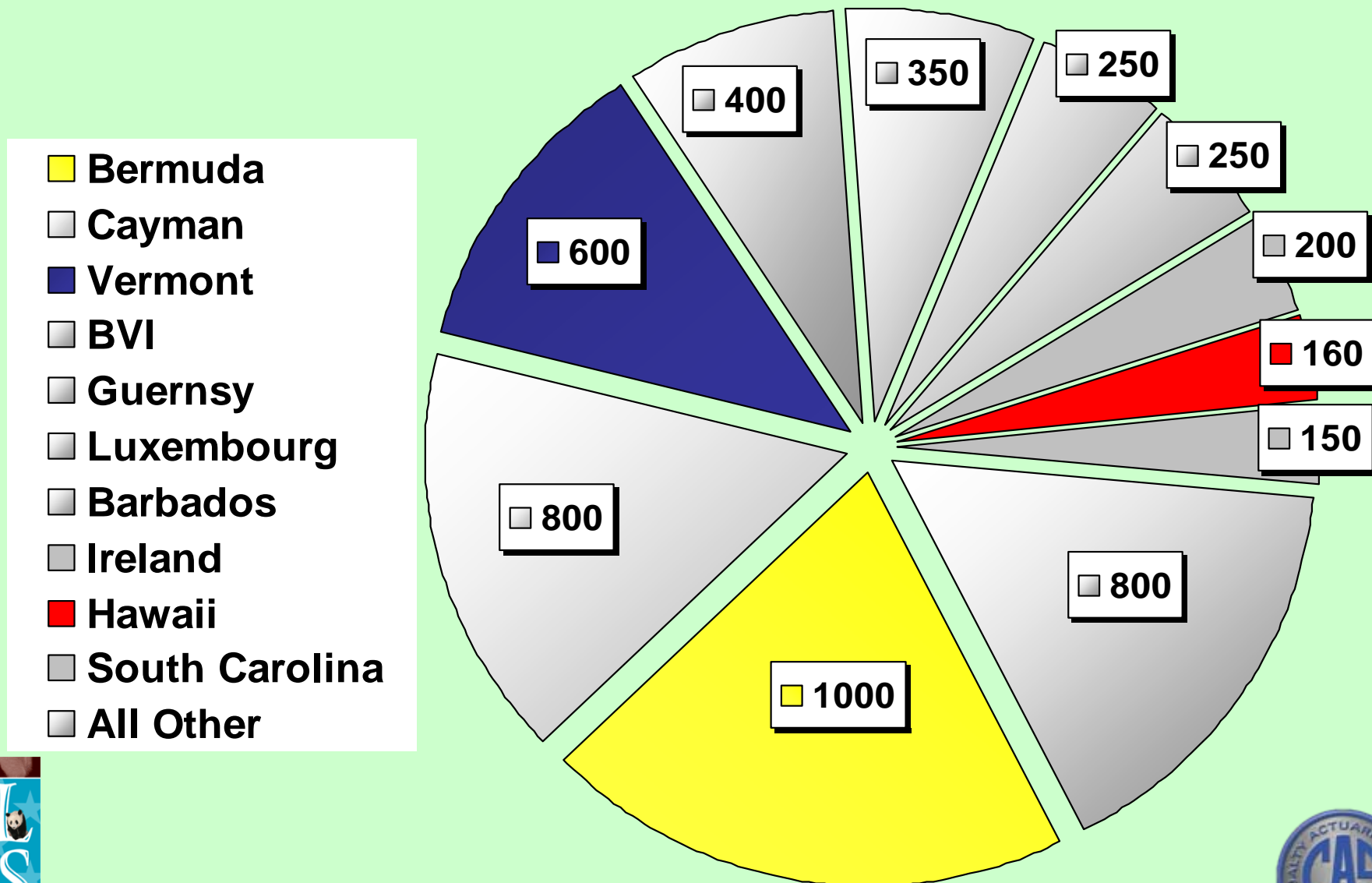
2,000 FTE



- Same cookie-cutter reserving methodology
- Single reserve study. Then allocate annual premium to the regions and business unit ( dba KPIT )



## Approximate Number of a Captives by Domicile



## Kaiser WC Risk Financing Strategy & Process

# California OCIPs



## Owner Controlled Insurance Program

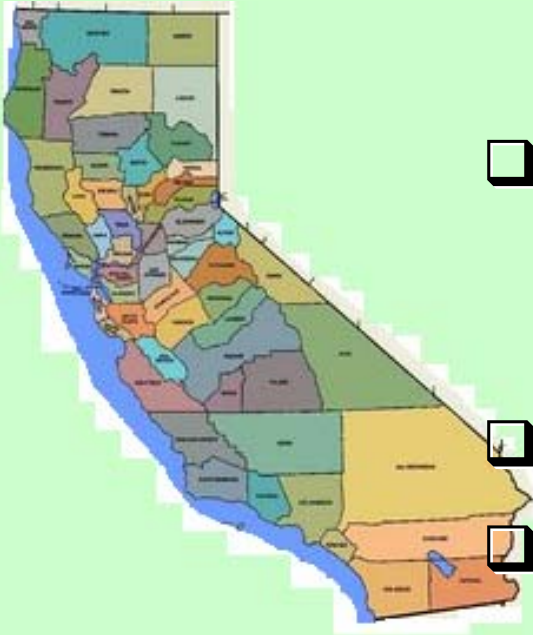
- ❑ Kaiser always building new and replacement hospitals & med centers
- ❑ Save on frictional costs associated with our contractors purchasing workers compensation
- ❑ Multiple sites, \$ billions in construction costs, \$ multi-million insurance costs

## Kaiser WC Risk Financing Strategy & Process

# California OCIPs

## Environment

- Unique exposure
  - WC and GL (premises & comp. ops.)
  - Every project has different sites, contractors, etc.
- Each program: Start-up and then Run-off
- Long tail...
  - WC payments
  - Construction Defect Reporting



## Kaiser WC Risk Financing Strategy & Process

# California OCIPs



## Strategy & Process

- Use a Captive
  - Absorb volatility across OCIPs
- Fronting Carrier / claims admin
- Creative Reserving Methodology



## Kaiser WC Risk Financing Strategy & Process

# California OCIPs



## Considerations

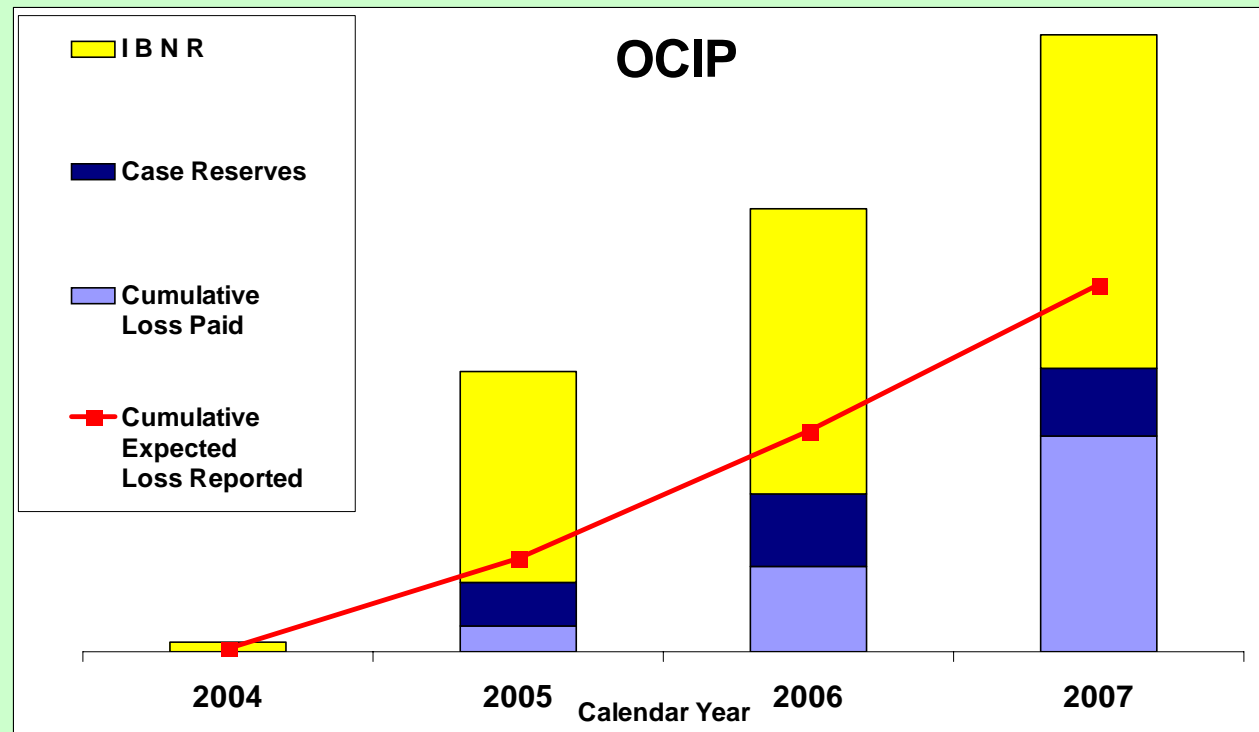
- Publish realistic financial results
- OCIPs can look remarkably successful at final audit
- At least 10 years to get a handle on ultimate results



## Kaiser WC Risk Financing Strategy & Process

# California OCIPs

## Realistic Financial Results





## Q & A

