



CHICAGOLAND
RISK FORUM
CHICAGO & MID-ILLINOIS RIMS CHAPTERS



Loss Portfolio Transfers – Reducing Your Outstanding Liabilities

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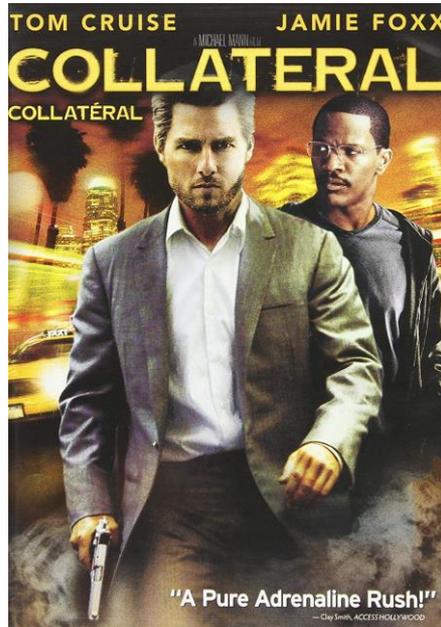


Agenda

- Collateral – Prior to a Loss Portfolio Transfer
- Claim Closure Project – Prior to a Loss Portfolio Transfer
- Behavioral Health – Prior to a Loss Portfolio Transfer
- Loss Portfolio Transfers

What is Collateral?

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LOANS



"Any other collateral besides your heart
of gold and million dollar smile?"

Determining Collateral

- Collateral requirement is based on an estimate of ultimate loss, or a “loss pick”
- Loss pick’s are part art and part science
- Actuarially determined and based on a blend of **individual and industry** historical loss development factors, metrics for claim frequency/severity, payroll, exposures, etc. and include:
 - Estimated claims (\$) **paid and incurred** during the policy term **and** over the life of the contract
 - Loss development and IBNR is not static, losses will materially develop over time
 - Collateral is determined by taking the ultimate loss projection and adjusting for the financial condition of the insured (120 – 130% of loss pick)

Collateral Accumulation

- Insurers generally will require an amount of collateral between 120 – 130% of expected loss
 - Collateral stacking, i.e. new policy years are added to older policy years
 - Claims growth exceeds claim closure rates
 - Exposure growth
 - Adverse loss development
 - Change in company financial condition

Financial Impact

- Your CFO doesn't like collateral because:
 - Can be expensive (100 – 500 bps)
 - Reduces company liquidity and erodes revolver borrowing capacity
 - Shows as a contingent liability on balance sheet
 - Prevents insured from using money to fund acquisitions, research, new product development, etc.
 - May affect loan or revolver covenants
 - Expensive relative to the investment grade spectrum

Why a Claims Closure Project?

- Typically TPA's emphasize compliance/tactical responsibilities over strategic resolution
- Lack of adjuster training
- Jurisdiction "Culture" – habits adjusters adopt in specific jurisdictions that don't support resolution
- Attention to newer claims
- Adjuster turnover
- Lack of active supervision

Nuts and Bolts of a Claims Closure

- New set of eyes dedicated to resolution
- Dedicated experienced resources solely focused on resolution
- Typically remuneration is a percentage of savings
- A closure project yields no payment unless claims are closed for less than reserves
- Claim closure products will absolutely impact collateral

Why Behavioral Health Matters

PSYCHOSOCIAL ISSUES ARE THE #1 BARRIER TO SUCCESSFUL RETURN TO WORK

#1

- Psychosocial issues are the No. 1 barrier to successful return to function/work outcomes
- The current system disregards the mental health effects of a physical injury
- Many Injured workers develop co-morbid conditions that lead to delayed recovery

Sources: Rising Medical Solutions 2016 Workers' Compensation Benchmarking Study. November 2016. WCRI Report: Avoiding Litigation: What Can Employers, Insurers, and State Workers' Compensation Agencies Do? WC-10-18. IFEBP Mental Health and Substance Abuse Benefits 2016 Survey Results. Lexis Nexis Occupational Injuries and Illnesses 2016 Edition

Why Behavioral Health Matters

PSYCHOSOCIAL ISSUES ARE THE #1 BARRIER TO SUCCESSFUL RETURN TO WORK



Substance Use Disorder

- Relevant to the opioid epidemic, chronic pain patients are 3x more likely to develop Substance Use Disorder (SUD)
- SUD patients are 1.5x more likely to have chronic pain



Anxiety

- Head pain patients are 3x more likely to have Generalized Anxiety Disorder (GAD)
- GAD patients are 2x as likely to develop head pain

Depression

- Back pain patients are 6x more likely to be depressed with the rate of depression increasing with pain severity
- Depressed patients are 3x more likely to have back pain

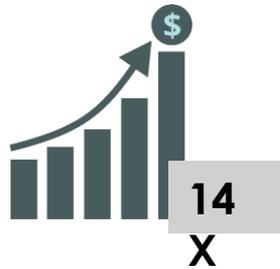
Reference: Hooten, W. M. (2016, July). Chronic pain and mental health disorders: shared neural mechanisms, epidemiology, and treatment. In Mayo Clinic Proceedings (Vol. 91, No. 7, pp. 955-970). Elsevier

Why Behavioral Health Matters

COST



- Out of guideline long acting opioid use results in a 4X increased risk of workers' compensation claim cost reaching \$100,000



- Out of guideline long acting opioid use, combined with benzodiazepine use, results in a 14X increased risk of worker's compensation claim cost reaching \$100,000 (*ref. Lavin*)

Reference: Lavin et al. 2014. Impact of the Combined Use of Benzodiazepines and Opioids on Workers' Compensation Claim Cost. JOEM

Carisk's Pathways 2 Recovery

TRANSFORMING THE APPROACH

*P2R is a proprietary system and approach to managing
Acute Catastrophic and Complex Workers' Compensation Cases*

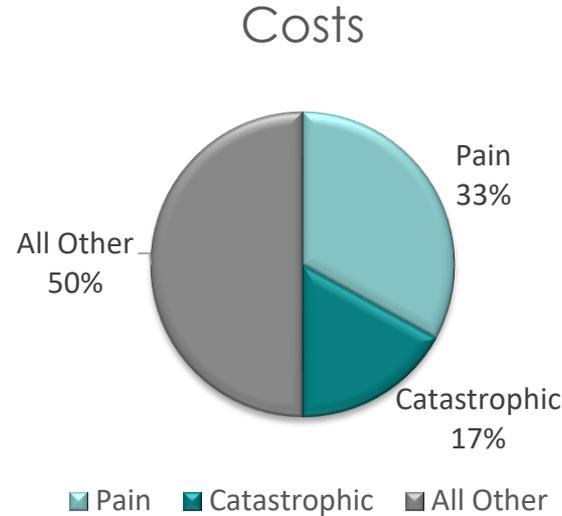
Patient-centered coordination of resources necessary for optimal recovery

- Built on the company's Behavioral Health Foundation
- Dual accreditations from NCQA and AAAHC providing for quality assurance and behavioral health specialization
- Quality, multi-disciplinary team approach:
 - Biopsychosocial approach truly integrated with med/surgical and clinical data and best practices
 - Specialized national provider networks (i.e. >50,000 quality behavioral healthcare providers)
- Early identification and intervention of high risk cases through proprietary data and analysis

Specialty Risk Transfer

CATASTROPHIC INJURIES DRIVE COSTS IN COMPLEX CASES

7% of catastrophic & pain-related injuries drive up to 50% of overall costs



- Acute catastrophic injuries can account for 17% of total incurred costs but only ~1% of claim frequency
- Severe pain-related injuries can account for 33% of total incurred costs but only ~6% of claim frequency

Carisk Partners

RISK TRANSFER SOLUTIONS FOR ACUTE CATASTROPHIC AND COMPLEX CASES

Acute
Large Loss
<30 days
of injury

Severe, urgent requiring immediate attention, empathy, family support. Quality clinical care with biopsychosocial evaluation and integration from onset to prevent delays in recovery

Non-Acute
Large Loss

Extensive case history, legacy case. Requires strategy, biopsychosocial analysis, expense management, timely functional restoration. Most cases include delayed recovery as a result of underlying behavioral health challenges

Specialty Risk Transfer

INCREASED FINANCIAL CERTAINTY FOR HIGH-COST PATIENT POPULATION

Protects assets, predicts loss expenses, reduces loss exposures.
Carisk assumes risk associated with Acute & Non-Acute large loss cases



Period of Time (i.e. 24 months, on average)



Outcomes driven

- Maximum Medical Improvement (MMI)
- Return to Work/Return to Function



Patient-centered quality clinical care including behavioral health early intervention preventing delays in recovery

Risk Transfer Alternatives

- **Loss Portfolio Transfer (LPT)** - A financial reinsurance transaction in which loss obligations that are already incurred and will ultimately be paid are ceded to a reinsurer. In determining the premium paid to the reinsurer, the time value of money is considered, and the premium is therefore less than the ultimate amount expected to be paid. The cedent's statutory surplus increases by the difference between the premium and the amount that had been reserved.
- **Commutation** – An agreement between a ceding insurer and the reinsurer that provides for the valuation, payment, and complete discharge of all obligations between the parties under a particular **reinsurance** contract.
- **Novation** - An agreement to replace one party to an **insurance policy** or reinsurance agreement with another **company** from inception of the **coverage** period. The **novated contract** replaces the original **policy** or agreement. Also known as cancel and rewrite.
- A novation is not a unilateral contract mechanism, therefore all concerned parties may negotiate the terms of the replacement contract until a consensus is reached.

Carisk Partners Vision

SOLUTIONS FOR CLINICAL MANAGEMENT & RISK TRANSFER

Carisk's clinical expertise, combined with its unique approach to each patients' situation, and best in class healthcare data, positions the company to effectively partner with the patient, provider and payor to achieve clinical and financial outcomes that work for all parties.

Carisk Partners provides best in class services through



Delivers risk transfer and care coordination programs for worker's compensation and auto insurers by combining behavioral healthcare expertise with clinical resources to manage large case losses. A risk transfer company



Managed Behavioral Healthcare Organization (MBHO) providing benefit administration and coordination of mental health and substance abuse services for HMOs, PSNs, commercial employers and other managed care organizations.



Provides medical clearinghouse services for healthcare providers and payors nationwide, facilitating the electronic submission of worker's compensation and auto/no-fault bills along with all supporting documentation.



Registered Diagnostic Testing Network (RDTN) nationwide, specializing in worker's compensation and auto/no-fault sectors, providing patients with access to quality diagnostic testing services.



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QUESTIONS