



WASHINGTON ASSOCIATION
FOR CHILDREN & FAMILIES

Insurance Solutions for Child Welfare Organizations: *One Size Does Not Fit All*

JULY 21, 2020

HYLANT

hylant.com



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*



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About Hylant | Hylant is a full-service insurance brokerage with 16 offices in seven states. When this family-owned business was founded in 1935, we made a promise to strengthen and protect the businesses, employees and communities of our client family by embracing them as our own. Hylant offers a full spectrum of business insurance, employee benefits and personal insurance, and is a member of the Worldwide Broker Network.

| FOSTER CARE | CHILD PLACEMENT AGENCIES

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INSURANCE

Having joined Hylant's Cincinnati office as a client executive in 2006, Mark's role with Hylant primarily lies in brokering property & casualty insurance for a wide array of healthcare organizations, human and social service agencies as well as many public entities. Possessing strong analytical and problem-solving skills, Mark assists his clients by providing creative solutions that are tailored to specific client needs.

With Mark's help, Hylant has carved out a niche in the specialty human and social services industry. Some of Mark's clients include agencies that specialize in foster care, adoption, behavioral health and addiction treatment. Mark is also engaged with numerous industry associations including several Children's Alliance state and national chapters.

SERVICES

The commercial liability marketplace for child placement agencies is rapidly shrinking. During this time of change it's important to get accustomed to doing business differently. Working with a trusted advisor who has first-hand experience navigating this process can help.

Hylant has established solid relationships with leading markets for commercial liability insurance. These partnerships provide valuable options for customized insurance solutions. We also have solutions that are outside the traditional insurance place

Aligning with a capable broker can help:

- Design well structured programs with broader coverage.
- Create strong relationships between you and carriers.
- Align your organization with strong legal assistance.
- Reduce overall costs of doing business and increase efficiency.

CONSULTING

As we experience shifts in the market place; non-renewing coverage increases or significant reduction in coverage, we work with clients on solutions to reduce those challenges.

Once engaged our approach is to conduct an audit of all insurance, analyze both coverage and price. Our approach is to then provide solutions to fill in any gaps in coverage or to enhance coverage.

Some common issues we can help solve:

- Eliminate overlapping or unnecessary coverage.
- Amend any policies with hidden endorsements or coverage.
- Adjust or provide missing coverage.
- Improve inconsistent pricing.
- Introduce alternative risk transfer

TODAY'S SPEAKER



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:

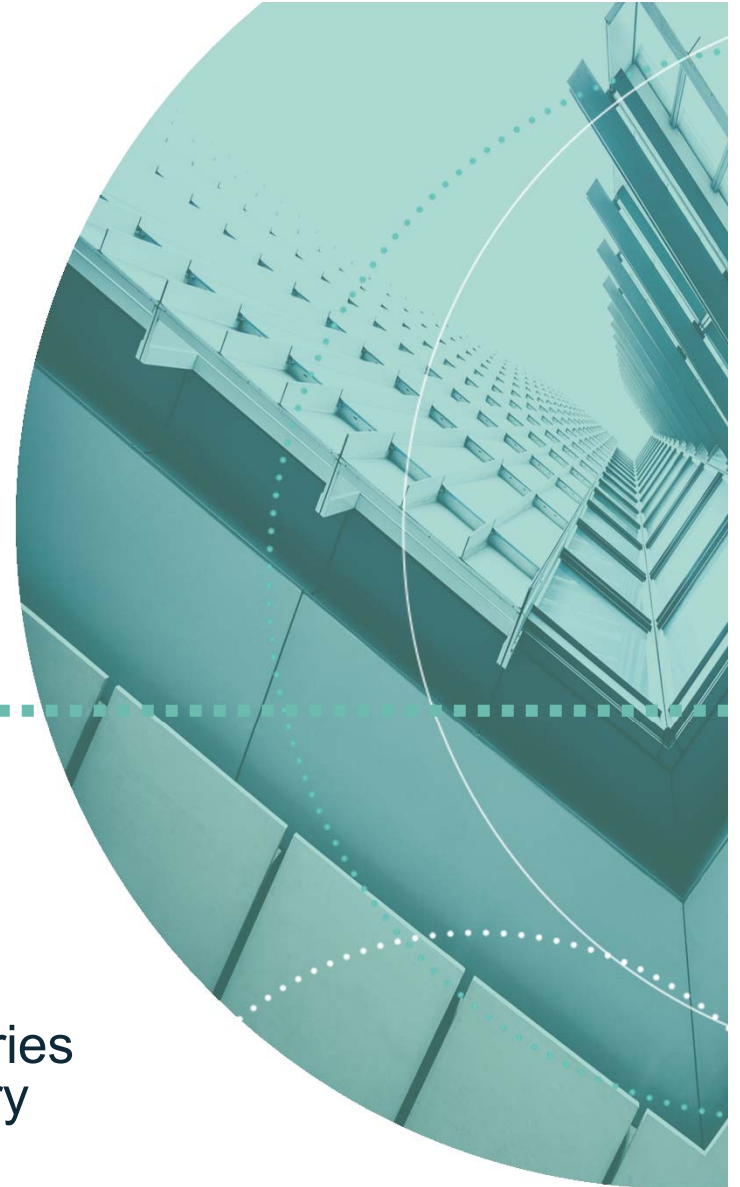
- *U.S. economy*
- *Possible resurgence of COVID-19 in the fall and winter*
- *Property damage from protests*
- *Predictions of a higher than average hurricane season*



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:



The Sean P. McIlmail Statute of
Limitations Research Institute
at CHILDUSA

CHILDUSA
THE THINK TANK FOR CHILD PROTECTION

www.childusa.org





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

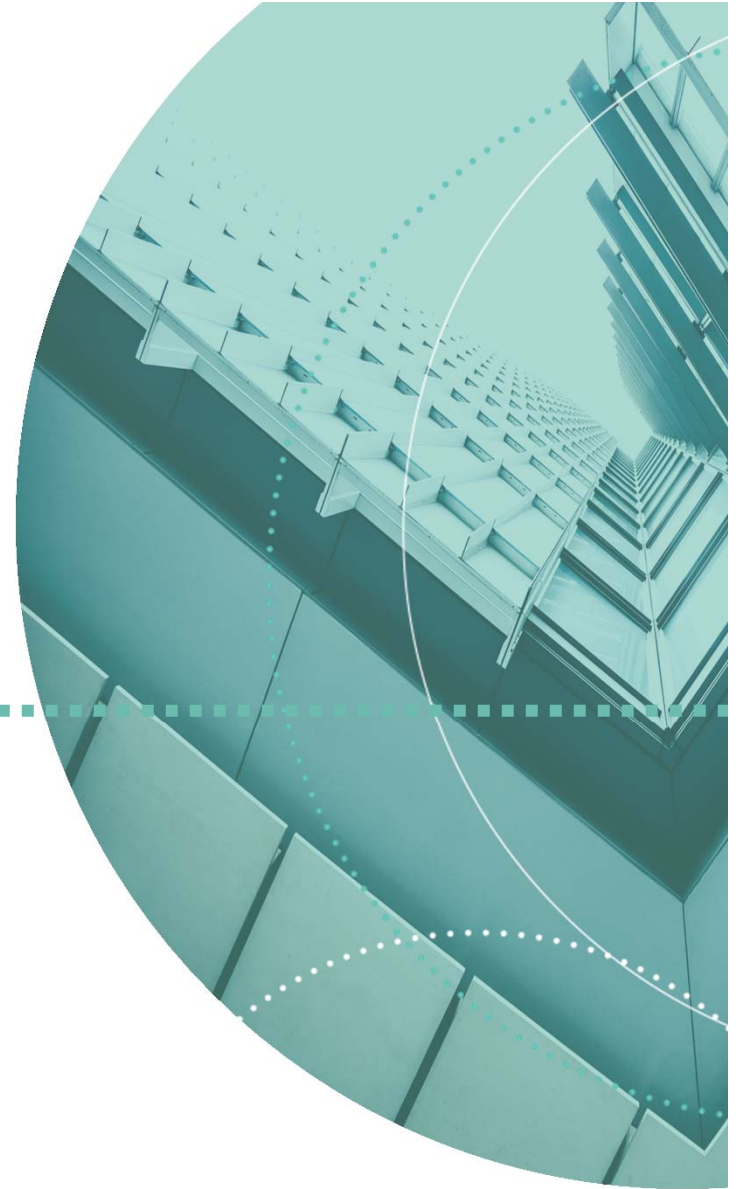
- *Telematics*
- *Driver Screening*



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)



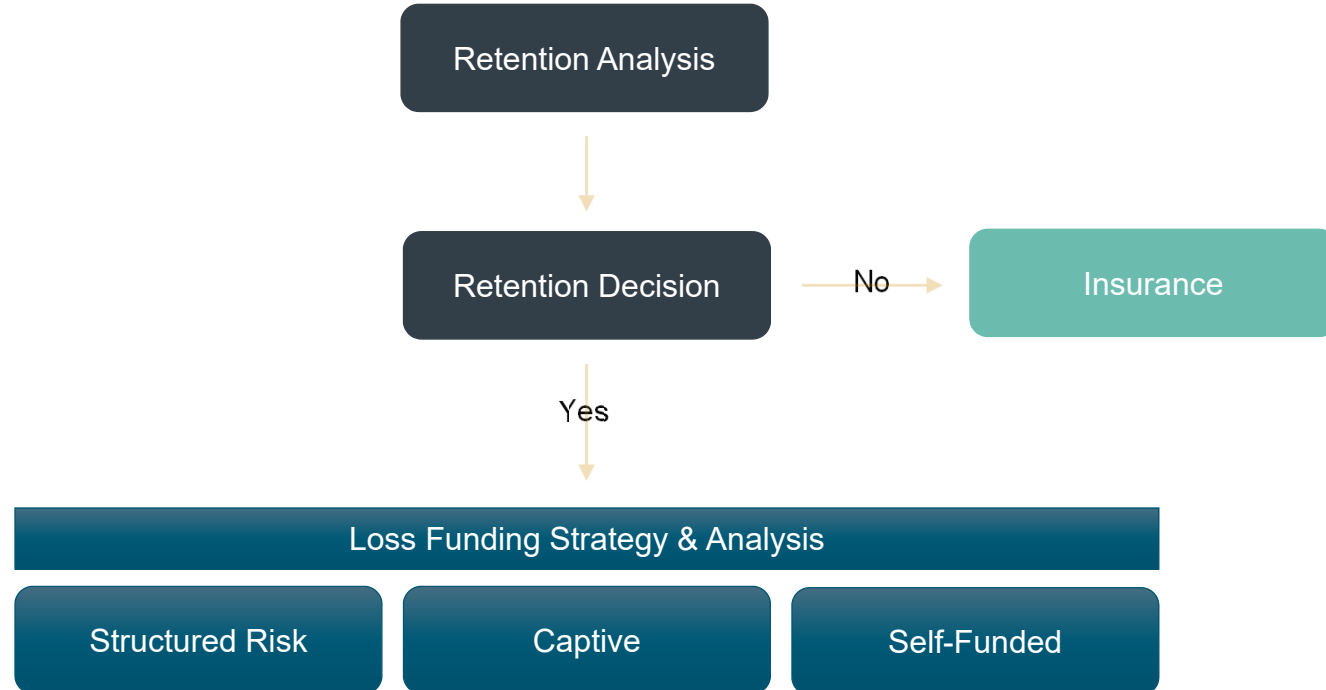
ALTERNATIVE RISK TRANSFER METHODS

- 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



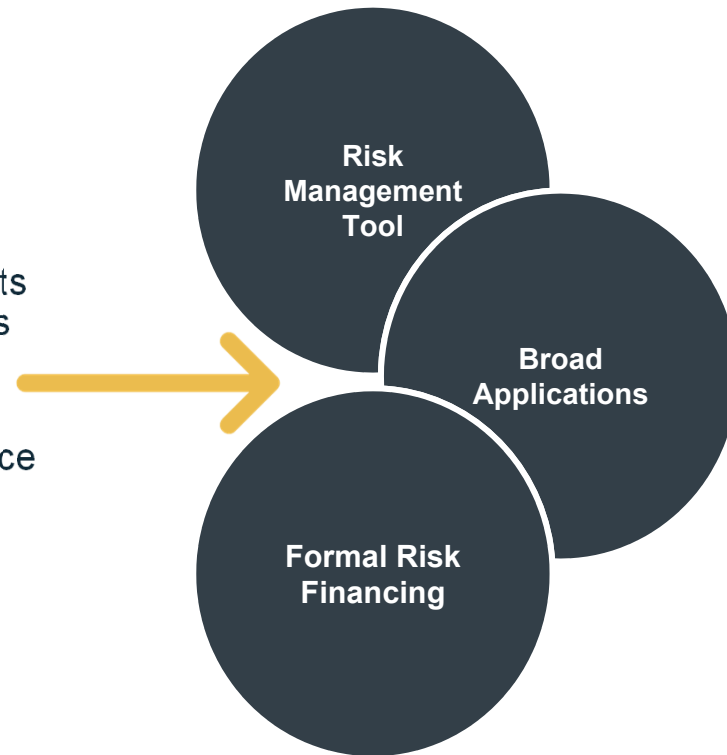


WHAT IS A CAPTIVE?

A **licensed insurance company** owned and controlled by those it insures

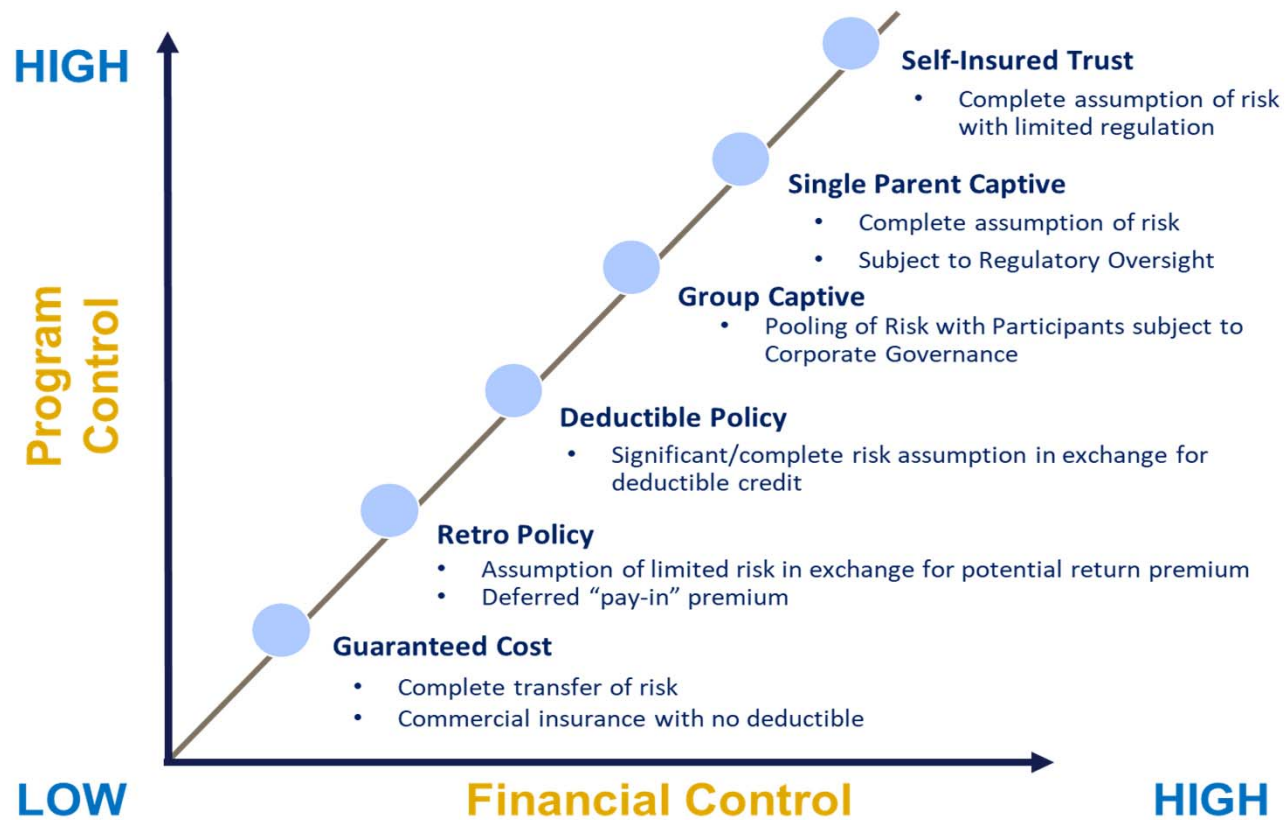
Insures or reinsures the risk of its parent(s) or affiliated companies

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



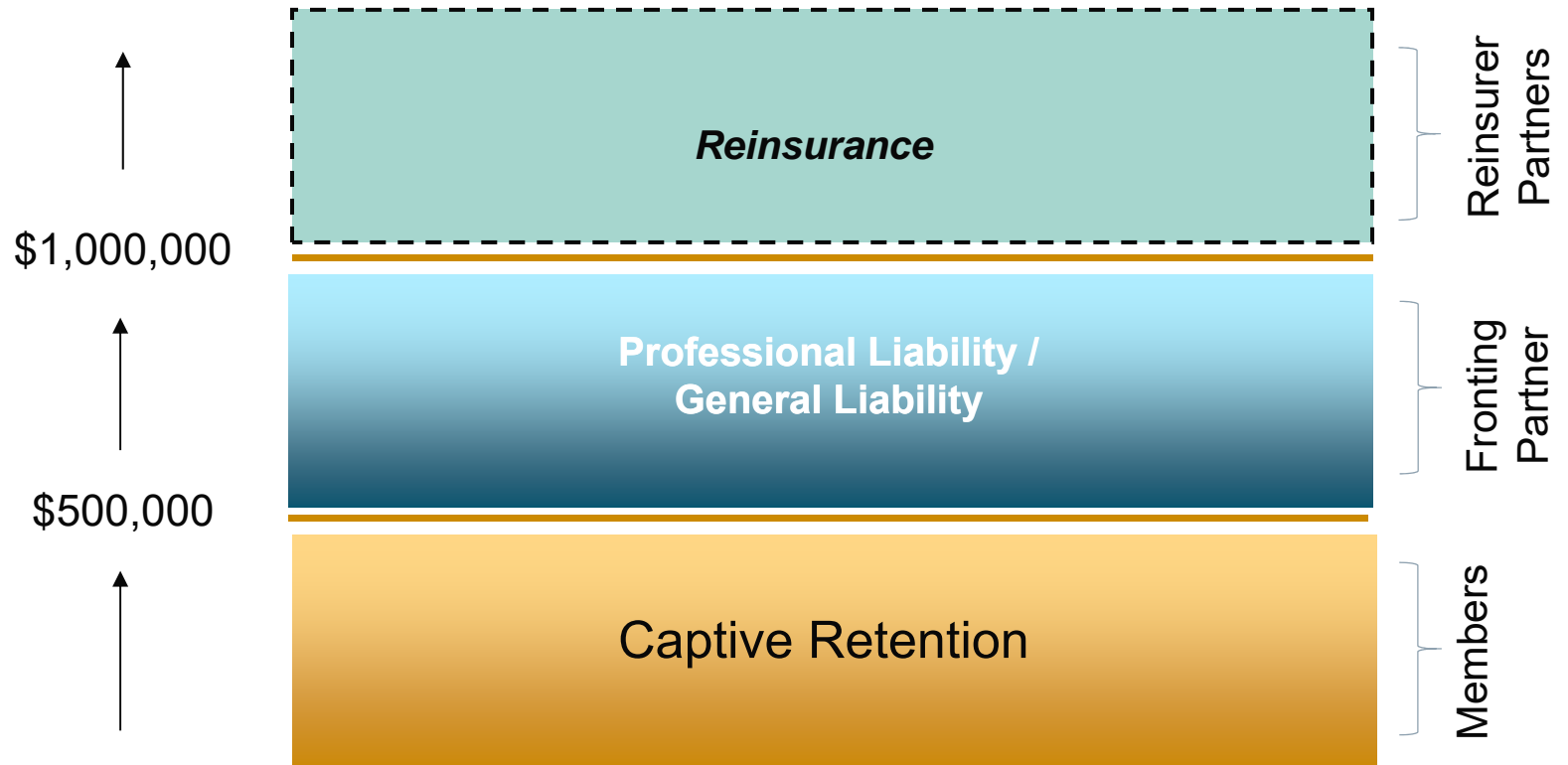
Strong balance sheet and consistent cash flow to ensure obligations can be met



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



• 01 •

Evaluate

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

Analysis

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

Considerations

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

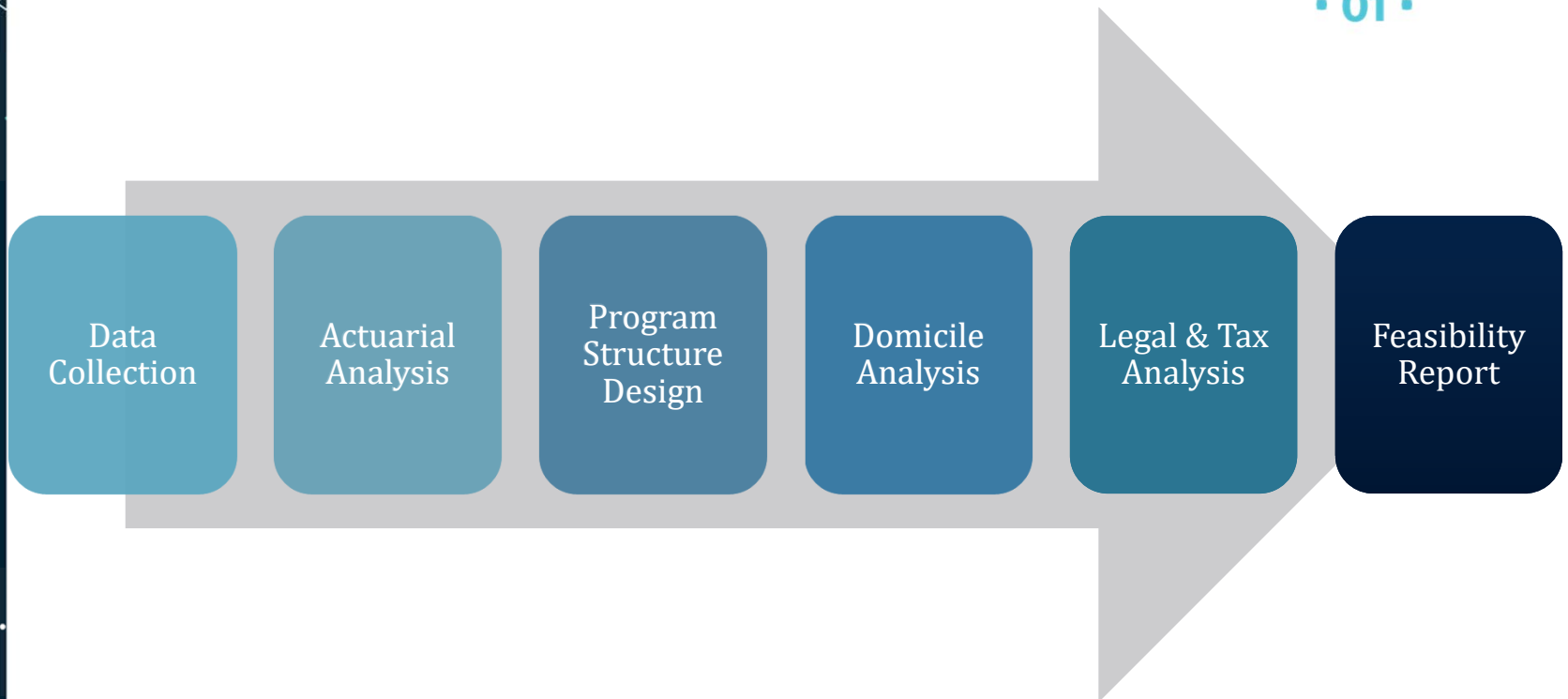
Implementation plan for execution



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

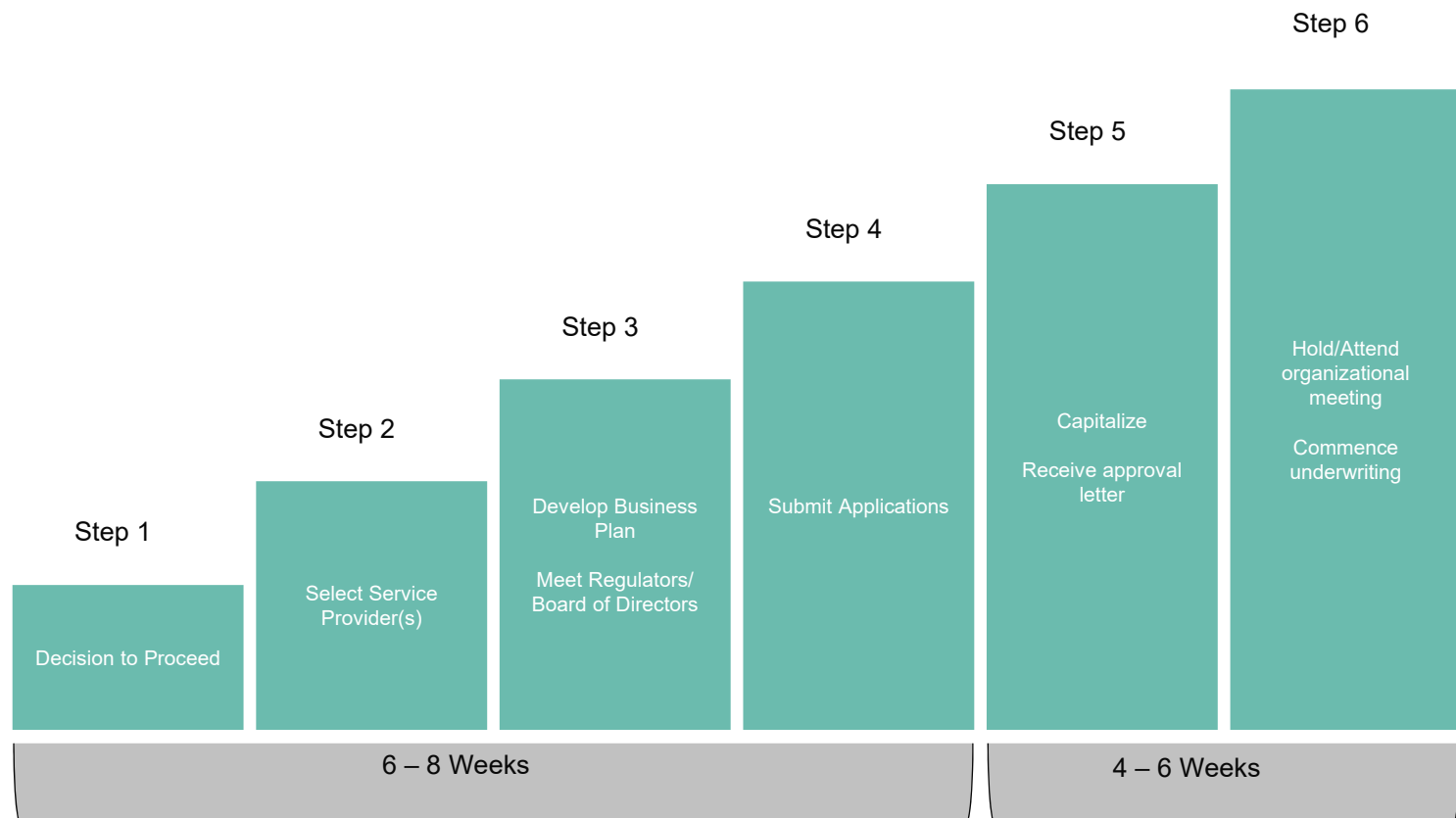
Example: 20 members participate in the Feasibility Phase 1 =
\$12,500 - \$15,000 per member



IMPLEMENTATION



• 02 •





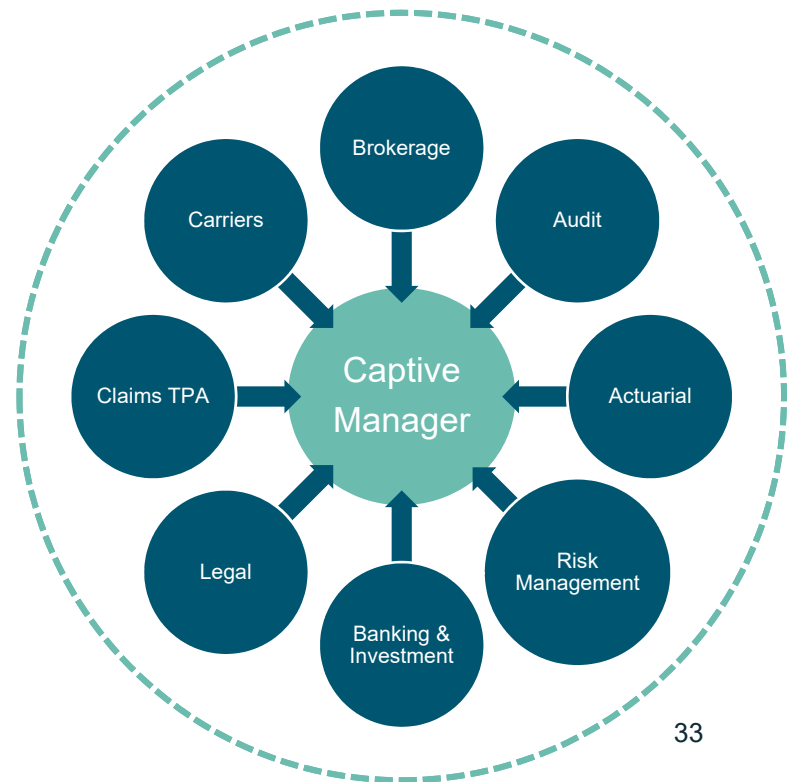
MANAGEMENT & OPERATIONS



• 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