

# EMS Organizations Explore Self-Insurance

**W**orkers' comp insurance premiums in Vermont accounted for about 10 percent of EMS operating budgets in the past. Today, Vermont EMS organizations pay as much as 50 percent of their operating budgets for workers comp insurance, according to Vermont EMS Director Dan Manz.

In South Carolina, where the problem is with medical malpractice insurance, one ambulance company reports that its premiums are up 300 percent, despite a loss-free year. An ambulance service in Minnesota saw its vehicle insurance deductible increase from \$500 to \$5,000 this year, while its premium increased from \$120,000 to \$380,000. These changes were not reflective of claims history, as both the accident rate and seriousness of accidents had declined.

The huge losses incurred by the insurance industry as a result of the September 11 terrorist attacks have resulted in what the insurance industry calls a "hard market." In a hard market, which industry experts predict could last for several years, premium rate increases are expected to rise between 10 and 20 percent for workers' comp, 20 to 50 percent for liability insurance and as much as 100 percent for property insurance. At the same time, underwriters are demanding more policy exclusions, especially if they perceive that the insured is likely to suffer terrorism-related losses.

In the wake of rising premiums and the withdrawal of some insurers from the market altogether, some EMS leaders have begun to explore alternatives to commercial insurance. One of these alternatives is known as "captive insurance," which is a form of self-insurance by a single company or a group of companies in a similar industry, such as emergency services. Captives are similar to intergovernmental insurance pools, which are captives owned by the public agencies they insure.

Captives may be formed only in cer-

tain U.S. states, as well as some offshore territories and countries. (See list below.) Of the more than 4,300 captives that currently exist, 63 percent are held off the coast of Florida and in the Caribbean islands, with the most domiciled in Bermuda, according to the Captive Insurance Company Association. Of those in the United States, Manz' home state of Vermont has the most with 387.

## LOWER RISK, LOWER PREMIUMS

Companies that form and finance captives are the owners as well as the policyholders, so unlike with commercial insurance, companies that participate in captives are liable to cover each other's losses. Because of this risk, Manz said that captive participants are likely to hold one another to high quality standards. "Part of the beauty of thinking about a captive in the EMS industry is that it is a tool to encourage good management practice because with the application of good management practice, hopefully services are able to minimize and prevent losses, and the more that you can minimize losses and prevent payouts, the lower the premiums become," Manz explained.

Captives have the potential to offer lower premiums for other reasons, as well. For example, the captive could limit its risk by setting rigid criteria for entry into the captive, such as having a driver-training program to reduce ambulance accidents. Captives also are not driven by

the need to pay out profits, as some insurance companies are. "Any profit that this captive made is plowed back into the cost of buying reinsurance, covering claims made against the company, and ultimately lowering everybody's cost of participating in the captive, Manz said. "There's no profit-motive."

In addition, Manz said that the expertise in emergency services that would assist in the administration of the captive would result in a good ability to manage the claims. "You've got a Board of Directors of EMS providers sitting around a table who are knowledgeable EMS managers," he explained. "They may get involved in managing this very large catastrophic claim. Those folks may have a better sense than a general insurance company if this is a legitimate claim. They may say, 'We'd better pay it and get out of this. Or, wait a minute, this looks like a very fishy deal. This is one we want to stay away from. We don't want to pay a dime on this because it's not a legitimate claim.'"

Despite the benefits, captives are not easy to form because they require initial capitalization of more than \$1 million, and Manz is not sure that the money is there in Vermont EMS to make such an investment. Another challenge lies in the decision about what kind of insurance to offer. In Vermont, the need is great for workers' comp insurance, but in South Carolina, EMS services may get good premiums on workers' comp from commercial insurers but need affordable rates on medical malpractice or vehicular liability insurance. Captives may sell to buyers outside of their state, but figuring out who needs to buy what kind of insurance and setting a competitive pricing structure is a complicated process.

To learn more, contact the Captive Insurance Companies Association at [www.captiveassociation.com](http://www.captiveassociation.com) or call (952) 928-4655. Another good Web site for information is [www.captive.com](http://www.captive.com). 

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