



Healthcare Banking

Innovative risk strategies: The role of captives for complex health systems and skilled nursing operators

How captive insurance and strong financial management help providers control costs, drive strategic growth and improve patient outcomes

For companies in every industry, obtaining and maintaining commercial insurance coverage has become increasingly difficult and cost prohibitive. But few have felt the pain more than healthcare providers. Provider organizations face a multitude of ever-present threats—from medical malpractice suits and workers' compensation claims to property damage and cyberattacks—that could undermine financial performance, disrupt strategic initiatives, or, in a worst-case scenario, curtail the delivery of care.

Insuring against and planning for these risks is business-critical, but for many providers, today's escalating premiums, tighter limits, and increasing deductibles are making risk transfer and risk financing more complicated and costly. These realities are driving more providers than ever to manage their total cost of risk with captive insurance companies.

According to the National Association of Insurance Commissioners (NAIC), as of May 2024 there were more than 7,000 captives across all industries globally, compared to roughly 1,000 in 1980.¹ Healthcare providers make up approximately 15% of that number.²

"Establishing a captive gives providers more control over their coverage, costs and claims, and can even become its own profit center," said Jeffrey Covington, director of healthcare research and data analytics with BOK Financial®. "With the right partners in place, healthcare providers can use captives to lower their total cost of risk while achieving the same or even higher level of risk transfer or mitigation. Ultimately, that can create opportunities to improve patient care."

In this paper, we will take a closer look at what's pushing providers toward captive insurance plans, why captives have become a viable option for a wider range of companies and how providers can maximize the benefits by partnering with an experienced financial institution.





CAPTIVES ARE MORE ATTRACTIVE AND MORE ACCESSIBLE THAN EVER

Just as individuals across America are grappling with high costs for healthcare, auto and homeowners insurance, millions of businesses—healthcare providers included—face similar financial strains.

NAIC data shows that, since 2018, commercial insurers hiked rates for nearly 30 consecutive quarters—about seven straight years of price increases. Commercial property insurance increased by 11.8% in Q4 2023 alone. While the first half of 2025 finally offered some relief in certain lines and geographies, companies continue to feel the squeeze overall. The casualty insurance market, for example, increased premiums 8% in Q1 2025 and another 9% in Q2.³ In many cases, healthcare providers find they can no longer place certain coverages or transfer as much risk as they had in the past, further inflating total cost of the risk to the enterprise.

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WHAT'S DRIVING SUCH A HARD MARKET?

Experts attribute the adverse conditions to a confluence of long-term trends:

- Courts and juries are awarding increasingly high damages—called “nuclear verdicts” exceeding \$10 million—to plaintiffs in liability suits, especially medical malpractice. After a two-year court slowdown during the COVID pandemic, jury awards in med-mal cases have skyrocketed since 2022. In 2024, the 50 largest med-mal verdicts averaged \$56 million, more than double the average from 2019.⁴
- Recent years have delivered an increase in the frequency and severity of natural disasters, which often result in billions of dollars in insurance payouts. From 1980-2024, the U.S. averaged nine events per year that generated at least \$1 billion in insured losses. Over the last five years, the average was 23 such events and there were 27 in 2024.⁵ This alarming trend has led insurers to either raise rates for property coverage, increase self-retention requirements or, in extreme cases, exit geographies entirely.
- Healthcare providers have become **attractive targets for cyber-crimes** such as data breaches and ransomware attacks, putting them at great risk of financial loss. In a 2024 report, IBM estimated that, compared to other industries, the healthcare industry suffered the highest average cost of a data breach—\$10.93 million.⁶
- Rampant inflation, largely spurred by pent up consumer demand as the COVID pandemic abated, has increased prices for everything from building materials to medical supplies. From the insurers’ perspective, inflation drives up costs for property replacement and repair, medical treatments and other services, and thus insurance premiums have followed suit. Combined with lower limits, this is increasingly becoming an obstacle in financing for existing properties, purchases and construction, as coverage limits do not match appraisals.
- In response to heightened risks, many insurance companies have significantly curtailed their underwriting standards, reduced capacity or exited certain lines altogether, decreasing competition and exacerbating upward price pressure.



The market realities have driven more sophisticated healthcare providers to optimize alternative risk financing strategies within their existing captive or to start exploring the creation of a captive to more efficiently manage their Total Cost of Risk (TCOR).

“Captives continue to be one of the most effective ways for healthcare providers to manage their TCOR. When comparing the performance of large carriers to the ability for captives to return value to their owners, the data speaks for itself—captives consistently outperform commercial carriers in expense and loss ratios,” said Covington.

Additionally, captive owners know their business better and understand their risk better than commercial carriers. In a market where there are few participants, the good risks end up subsidizing the bad, particularly when many of the more sophisticated companies have already moved their risk transfer to a captive. A captive allows the healthcare provider’s risk management team to target profitable layers while transferring risks to reinsurance markets based on the risk profile and appetite of the enterprise risks that would otherwise disqualify financing options.



BEYOND RISK MANAGEMENT: A WIDE RANGE OF POTENTIAL BENEFITS

In overarching terms, captives have proven their ability to provide superior financial performance compared to commercial insurance. In its 2025 review of the captive market segment, credit rating agency AM Best reported the following: “Between 2019 and 2024, the captive composite added \$4.6 billion to its year-end surplus while returning \$2.0 billion in dividends, representing \$6.6 billion in insurance cost savings that the captives retained for their own organizations by not purchasing coverage from the commercial lines market.”⁷ The report goes on to outline the reasons for the captives’ outperformance, which “include the captives’ efficiency in managing claims and mitigating risk, their ability to control operating costs and their focused approach to underwriting.”

Captives typically have much lower expense ratios than commercial carriers due to lower administrative, marketing, operational and sales overhead. Captives therefore can deliver stronger performance year-over-year, allowing for more opportunities to grow excess surplus. This excess surplus can be used in a number of ways, including absorbing excess losses, maintaining or expanding benefits to improve employee retention, increased net investment income, or increased dividends to shareholders.

As commercial carriers begin to recover from years of losses, healthcare leaders have an opportunity to optimize their current risk programs. A strong partner with industry expertise can provide flexibility and creative solutions to improve cash on hand, free up capital, or improve reinsurance and fronting carrier arrangements.

Here’s a more detailed look at some of the key benefits derived from a sophisticated captive strategy:

Stronger risk management

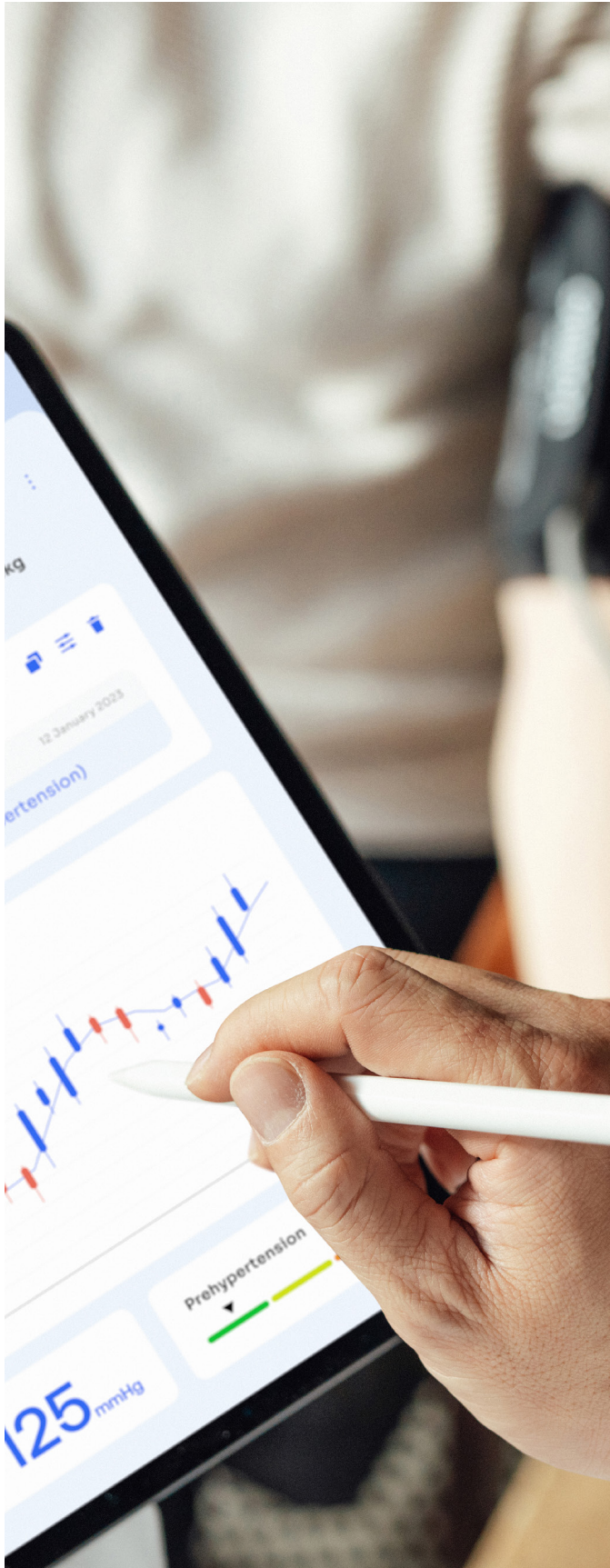
Commercial insurers make underwriting decisions and set premiums based on broad assumptions driven by actuarial data. Healthcare providers, on the other hand, understand their own risks better than anyone; they have first-hand knowledge of their clinical practices, staffing patterns, facilities and history of liability claims. By using this intimate knowledge to structure a captive insurance program, providers can design coverage and risk management strategies that directly align with their total cost of risk (TCOR). This sharper understanding can facilitate more accurate pricing, better insight into claims management and, ultimately, lower costs. Moreover, because the parent company has more visibility into their risks, captives incentivize proactive safety and quality initiatives that can reduce claims and improve patient outcomes.



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Customized coverage

Unlike off-the-shelf commercial policies, organizations can tailor their captives to meet specific coverage needs for medical malpractice, workers' compensation, property damage, employee health benefits and more, adjusting deductibles and coverage limits to meet their specific risk tolerance. This level of customization ensures the organization gets exactly the coverage it needs without paying for unnecessary add-ons that may be bundled into commercial policies.

The captive can also be useful in closing gaps where certain types of coverage are unavailable. For example, most insurers have amended certain policies with a "communicable disease exclusion" to protect themselves against the widespread impacts of another COVID-like pandemic or even a local outbreak of measles. Sophisticated healthcare risk managers have designed supplemental business interruption coverages that enable the parent to react quickly to changing environments while allowing providers to focus on patient care, mitigation and containment.

Another emerging concern for providers is the complex issue of "AI liability" (would med-mal coverage apply if technology were to blame for a misdiagnosis or failed treatment?). Again, a captive could address this issue directly and provide adequate protection where a commercial insurer may not, allowing for a balanced approach to this powerful innovation.

Access to reinsurance markets

One of the main benefits of a captive program is the ability to access reinsurance markets. This, however, gives rise to unique problems as captives are by definition thinly capitalized. Reinsurers and fronting carriers will require NAIC approved paper to count Letters of Credit towards their statutory reserves. Unless captives are themselves rated, having a strong financial partner is critical to leveraging this benefit.





Financial upside and surplus retention

As outlined in A.M. Best's market report, captives have enabled the accumulation of billions of dollars in excess surplus, while commercial carriers have experienced years of losses. This surplus can be deployed strategically—to improve cash flow, enhance employee benefits, or invest in clinical technology upgrades and staff development. In contrast, commercial carriers tend to raise premiums during loss years and retain profits in strong years.

The reversal in insurance industry performance over the past year clearly illustrates this dynamic. Commercial insurers posted their strongest results in more than a decade in 2024. The property/casualty industry's combined ratio improved to 96%, swinging from a \$20 billion underwriting loss in 2023 to a \$27 billion gain.⁸ For healthcare providers who rely exclusively on commercial coverage, these numbers can be frustrating when they see no tangible benefit from the turnaround. With a captive, however, providers reap the rewards of a good year and can use surplus funds however they see fit.

Advantages of captives

Beyond their widely recognized advantages, more sophisticated captives can leverage the framework in creative ways to meet other company goals. Some examples include:

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- Structuring the captive to include newly acquired entities or physician groups, helping integrate them into a unified and diversified risk pool.
- Using the captive to minimize employee health insurance costs or provide non-standard benefits, helping the company attract and retain key talent.
- Housing a component of the executive compensation plan in the captive, thereby aligning leadership incentives with risk management.
- Using a privately held captive as an estate planning tool for tax-efficient wealth transfer.
- Writing unique coverages—such as parametric wind and flood policies or custom communicable disease policies—that allow the organization to respond in an agile manner during times of crisis.
- Closing coverage gaps to meet covenants in mortgage financing or mitigating fortuitous risks that would otherwise disqualify financing options.

THE VALUE OF AN EXPERIENCED FINANCIAL PARTNER

Most healthcare providers require a captive insurance manager to administer the entity, but there's an often-unsung member of the team that can prove every bit as critical: a trusted banking partner. In fact, finding a bank with proven experience and expertise in the captive insurance space should, arguably, be a provider's first stop on the path to establishing a captive. Moreover, a strong financial partner can also help providers with long-established captives fine-tune their strategies to extract maximum value.

"You don't want to spend time educating your banker about how they might support your captive," said Covington. "A bank that already understands captives can offer objective advice and strategic insights to streamline the process and make it financially rewarding."



In the formation phase, an experienced banking partner can:

- Assist with a feasibility study to evaluate whether forming a captive makes sense from a financial perspective.
- Provide capitalization financing to help the company launch a captive without the need for large cash reserves.
- Provide letters of credit to assure regulators or reinsurers that the captive can pay claims and meet other obligations.
- Connect client companies with a network of proven captive management companies and reinsurers.

In the ongoing management phase, a full-service bank can:

- Serve as the third-party custodian of the captive's assets, surplus funds and reinsurance collateral.
- Invest funds strategically, potentially producing yields that can offset the costs of running the captive, while ensuring sufficient cash for claims and regulatory reporting.
- Provide treasury services to optimize cash flow, liquidity, payables and receivables.
- Support regulatory compliance and reporting tasks, saving the client many hours of administrative drudgery.
- Supply premium financing to keep more operating cash in the business while supporting alternative risk strategies.
- Provide guidelines for NAIC approved letters of credit to support complex reinsurance and fronting arrangements while minimizing paperwork and streamlining renewals.

Undoubtedly, launching and managing a captive insurance company can be a complex process. But the earlier providers engage the services of knowledgeable experts—including an experienced financial partner—the smoother the setup and the faster the benefits materialize.





SUPPORTING THE ULTIMATE GOAL

Evolving regulations, access to limitless information and a wealth of supporting services have opened the door for many more healthcare providers to capitalize on the advantages of captive insurance. When structured correctly, a captive can help stabilize insurance costs, enable more informed decision-making, serve as a source of funding for growth activities, and support a variety of other company goals, including the most important one

of all—providing higher quality patient care. But success begins with the right guidance. An experienced banker that understands the nuances of healthcare and captive finance can be a company's most valuable partner on the path to comprehensive risk strategies.

1. NAIC: Captive Insurance Companies
2. Carr, Riggs, and Ingram. "Captive Insurance Overview: Healthcare Provider Industry Highlights."
3. Insurance Journal. "Global Commercial Insurance Rates Drop 4% but Casualty Rates are Rising."
4. Insurance Insider. "Nuclear medical verdicts: Is \$50mn the new \$25mn?"
5. National Centers for Environmental Information. Billion dollar weather and climate disasters.
6. IBM. "Cost of a Data Breach: Healthcare Industry."
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8. Insurance Journal. "A Look Back at 2024: The Year in Insurance."