A bold move

New York's Mount Kisco Medical Group has launched Vermont's 800th captive. Scott Hayworth, CEO and president of Mount Kisco tells **Aimee Donnellan** conservative planning and funding are at the core of this bold move into the captive world

Mount Kisco has been servicing New York's medical needs for over 50 years. In that time it has become the oldest multi-speciality physician group in New York. Its affiliation with Massachusetts General gives this medical group further integrity as it is its only major affiliate, outside of Boston.

Mount Kisco is made up of 900 employees including 146 physicians. It is soon to be in seven locations and spread across three counties in the Hudson Valley of New York. This rapid growth has given the medical group the ability to try alternative options like captives.

The new captive has a layered structure comprising the first US$250,000, another layer from US$250,000 to US$1m and a final layer of US$1m to US$2m. The medical group is self-insuring for up to US$1.5m and all the excess layers are valued at US$1m.

It seems the scene was set for a company like Mount Kisco to turn its back on the increasing rates New York State has been charging for malpractice insurance and go it alone with a captive. The medical group is entirely self-sufficient with its own ambulatory surgery centre, MRIs, CTs and a full-serviced lab.

It is clear from the way Mount Kisco has evolved that going for an independent and more cost-efficient route would make much more sense. Hayworth says he realises that his patients will not care that they have chosen a captive route but he explains: "I believe that if you're going to do something you do it right. Although the captive is not related to the patients it is more of a reflection of how we can manage our corporation efficiently and this will in turn help us to continue to recruit the best doctors."

The decision to set up shop in Vermont was not taken lightly. There was talk of domiciling in the Cayman Islands but the efficiency and experience that the state of Vermont brought to the table tipped the balance in favour of the American counterparts, he says.

Captive knowledge

Stan Moser, chief financial officer of Mount Kisco joined the team and aided the process with his extensive knowledge of captives. The data was analysed and it took a full two and a half years before the medical group was ready to take the plunge. It seems this method of thoughtfulness and diligence is a prerequisite for anything Mount Kisco related.

As US$1.5m had to be put forward from the offset, Moser explains: "We'll be funding the captive for more than we at first expected. As a result of this spending we will be doing some conservative things to handle the money inside the RRG. The decision to domicile in Vermont was one that was thought over arduously."

Mount Kisco also had the difficult task of weighing up Cayman against Vermont in terms of capacity to provide the best service and in the end the choice was Vermont. Mount Kisco decided to go with risk retention, which was unavailable in Cayman. He suggests only Vermont could offer the necessary elements to bring about a Mount Kisco captive.

"Vermont has proven to be more than capable of providing excellent assistance in starting up a captive. They have top-of-the-line regulators that in the end provided us with comfort as we took on this project. They have bent over backwards to accommodate us in meeting our deadlines," says Hayworth.

Vermont is ranked highly as a captive domicile due in no small part to its service network, which is built around the captive industry. Moser, who has vast experience with captives and RRGs says his team were impressed with the highest degree of attorneys, actuaries, accountants and managers that made the process all the smoother. Hayworth explains: "Vermont has been a true partner and in this process we couldn't have asked for anymore."

Mount Kisco also decided to take on Willis as its broker and has voiced high praise for the service received. Moser had worked with Willis in the past and its reputation in the captive world as well as a proven track record is why it was chosen above its competition, he adds.

Restricted growth

The strategy that has been employed by Mount Kisco is one of conservativism, says Moser. The plan is to keep the captive from growing in order to make sure that it is fully funded. He will not even consider distributing any of the funds until there is an ample supply in reserve.

"We realise that premiums jump dramatically in the first four to five years so the annual premium is US$1.5m. Although it is still a lot of money we were paying US$5m for outside insurance when we started so that saving of US$3.5m is welcome," he says.

Although Mount Kisco plans to take the captive plans slowly its owners foresee that the captive will grow alongside the medical group. There are 146 physicians employed and they plan on taking on a few more partners but it is certain that they will not be taking on 30 different groups to the captive.

Control is of paramount importance to the New York-based medical group and this is to be achieved through the captive. Hayworth says: "We need to be in control of our fate and destiny while ensuring that we keep the rates under control."

When it comes to medical groups who will undoubtedly follow suit, Moser and Hayworth believe that Vermont is the domicile to go with. Mount Kisco researched other states who claim to be able to provide captive services but Hayworth explains: "There are only a handful of states in America that could match the service provided in Vermont and at the end of the day we went for a sterling reputation."

The problems in New York in terms of high rates and lack of services also brought Mount Kisco to Vermont. "The market conditions were ideal for self-insuring as there are only two firms that handle malpractice insurance in the state of New York – Milmic and PRI," says Moser. The state of New York regulates their increases and seems to add additional burdens to a state that already has serious problems in relation to malpractice, he adds.

The captive has already brought value to Mount Kisco. Although it is too early to quantify its success it has heightened the awareness among the physicians in Mount Kisco about malpractice insurance, which is important in an organisation of its size. "The process of setting up the captive was smooth but not simple. The decision to begin the start-up took two years of sifting through data and dealing with actuaries. This process seems to have been improved by the help and support of the services in Vermont and the team in Willis," says Moser.

As the manager of the captive, Moser has now been working in Kisco for nine months. He has an impressive captive and RRG background which made him a safe bet for this rather conservative medical group. He was CFO of Billings Clinic in Montana before he became CFO of Mount Kisco. Moser's involvement made it easy for Hayworth to make quick decisions as he says he felt comforted by the vast experience Moser displayed which made the finishing touches much easier to apply and get the programme running quickly once the decision was made to set up the captive.

"The decision to go with Willis was quite an easy one," says Hayworth. Five firms were interviewed but during this process it became clear that Willis would provide a level of service combined with the sense of security that was necessary in a conservative organisation like Mount Kisco. Willis's reputation and their offices in New York tipped them over in terms of being the right choice.

There will always be challenges to face when starting a captive but Hayworth explains that these were minimal. "We had to analyse the history we've had and really had to understand the projections from the actuaries while keeping in mind the risk that was involved," he says

Mount Kisco has clearly had a positive experience in setting up its captive. Its advice to companies who are faced with high rates and lack of services to look at their data and Moser adds: "You will need a great actuary. If you have a good actuary then they can put the numbers together and if it all looks like the benefit outweighs the risk, go for it."