

Covering Recovery

NSM Insurance Group mines a profitable niche in alcohol- and drug-abuse treatment centers.

by Dennis Gorski

Addiction treatment for drug and alcohol abuse, once relegated to AA meetings, church groups and on-a-shoestring community efforts, is now a mainstream medical therapy—and a growth opportunity for agents and brokers.

“If you’re a broker, there’s a lot of meat on that bone,” remarked Richard Willetts, national program director for the Addiction Treatment Providers Program for NSM Insurance Group, based in Conshohocken, Pa. “I think it’s a perfect business for a skilled independent agent.”

NSM Insurance Group, a large program management company, uses New Jersey-based Arch Insurance Co. exclusively to underwrite the 15 different parts of its addiction treatment program. Business is written on an admitted basis in all 50 states, and NSM Insurance Group has clients in every one, said Willetts, who holds both CPCU and ARM credentials.

“We are the largest program in the

U.S. focused exclusively on behavioral health,” he said. NSM’s substance abuse program is folded into that unit, he added. NSM Insurance Group finished 2012 having written just under



\$30 million in direct premium, and the client base is about 700 treatment outlets, he said. Policy limits range up to \$10 million of liability and \$50 million for property/casualty, he added.

“We write the gamut,” Willetts said of his staff of four underwriters and four support assistants, from “sober homes” to methadone clinics to psychiatric hospitals. The largest part of NSM’s book is 20-bed inpatient facilities, places where patients stay for four weeks (almost always on an insured plan) to get clean and,

through therapy, get ready to reset their lives.

He cautions, though, that this segment of insurance is not for the faint of heart. “It’s easier said than done. The frequency of severity will eat you alive if you don’t know what you’re doing. It is not a class of business for every carrier,” he observed.

“People send their loved ones into treatment thinking they’re going to get better,” Willetts said. “They’re finally going to get clean; they’re finally going to change their lives. And then the call comes: ‘Your son left the facility last night and went on a bender and was found dead in the park the next day.’ Well, that’s on our watch. We’re responsible for these people, especially when they’re an inpatient at our facilities.” Sometimes suicides occur, he said.

So the insurance protection needed by treatment centers is wide-ranging. Willetts said the most frequent claims are general liability, slips-and-falls and automobile. The most severe claims are professional liability, sexual abuse and wrongful death. “That’s where we see the big ones,” he said.

Other lines for these centers include property/casualty, excess liability, accident and health, directors & officers and employment practices liability cover.



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—Richard Willetts,
NSM Insurance Group

Willetts pointed out that patients arriving for treatment “are fragile, medically, because they’ve been an alcoholic for 30 years or a heavy drug user. Maybe they have HIV. And where we see a lot of severity and issues crop up is in the detox phase. It’s about a seven- to 10-day process. That’s a very dangerous time. Withdrawal is severe.”

Mystery Market

The field is “not as competitive as some,” he said. “It’s a misunderstood market by both insurance companies and brokers.”

However, the growth signs are plentiful. For one, Willetts said, there’s limited competition: no direct writers and no Main Street carriers. Only a handful of insurers offer addiction treatment specialty programs. “So you have fewer brokers pursuing this niche. It’s not on their radar and it’s cryptic. It’s a mysterious market.”

And, he added, the market is self-perpetuating: Every year brings a newly classified addiction needing treatment and therapy ... and insurance for the caregivers. Two “new” examples Willetts cites are sexual addiction and video-game addiction, joining gambling addiction and other recent maladies needing care.

In the 1970s there was no such thing as “prescription drug abuse.” Now prescription painkillers are the second most-abused drug in the United States, after marijuana, he pointed out.

Treatment itself also has taken a new direction, Willetts said. Instead of the “war on drugs” that’s tried unsuccessfully to curtail the arrival of illicit drugs in the United States, the focus has shifted to “demand reduction” that uses treatment instead of jail time. Some 80% of all prisoners are behind bars on drug convictions, he said. They sit in jail cells at an average annual cost of \$25,000 in taxpayer dollars, he noted. Once released, inmates’ recidivism is deplorable. The cycle repeats itself.

On the other hand, an average treatment episode, with its much higher chance of success, costs \$5,000. Willetts sees more and more states opting to send drug suspects to treatment facilities first rather than straight to prison. This movement, too, will increase the number of clinics. (He estimates the country today is home to at least 14,000 clinics of every type.)

And the entire subject is now recognized as insurable by federal “parity” legislation requiring that mental health issues receive “on par” treatment as chronic diseases, Willetts said. Justification comes from the fact that 80% of addicts have underlying mental trauma, he said. “Addiction and mental health go hand in hand.”

With addiction going mainstream, so too have doctors, nurses, psychiatrists and psychologists entered the field—all of them generating more insurance needs.

The Affordable Care Act will add to the growth, Willetts said, because

it brings about 35 million new Medicaid patients into the health care system. A significant number of these new members will need addiction treatment—again, as chronic illness treatment.

Started From Scratch

After receiving his degree in economics from the University of California at Davis, Willetts began his 27-year insurance career in commercial underwriting and risk management with insurers such as Kemper, Hartford, Zurich and GE. He got his first taste of specialty niche insurance programs while in Dallas (“car dealerships and pizza parlors”) and the chance to administer an addiction program as a managing general underwriter with GE Commercial.

He joined NSM Insurance Group at the invitation of its chief executive, Geof McKernan, himself in recovery for more than 25 years, Willetts said. The two built the addiction treatment program “from scratch, one client at a time” beginning in 2006.

NSM specializes in several niche markets beside drug treatment, including home builders, transportation, workers’ comp, charter schools and community organizations. NSM Insurance Group works with a stable of 15 top-rated insurers, according to its website.

Willetts is sanguine about the addiction-treatment sector’s outlook. “Clients really value a trusted adviser” in this niche, he said, and they appreciate guidance to protect against “all the scary things” addiction treatment involves. “They value risk management,” he said.

Above all, clients remain loyal to carriers and their agents and brokers in this segment, Willetts stressed.

“It’s a very open industry,” he said. “They’re not competing for addicts. There’s plenty to go around. So they share referrals very well.

“They’re very collegial with the other treatment facilities and that helps open doors for agents and brokers for referrals.”



Rehabilitation Facilities - Substance Abuse

A.M. BEST HAZARD INDEX

Index	Underwriting	Comments
Automobile Liability	4	Higher if drivers frequently transport clients.
General Liability: Premises and Operations	5	Higher if clients live on the premises and perform housekeeping chores.
Professional Liability	6	-----
Workers’ Compensation	4	-----
Crime	4	Higher where drugs are present.
Fire and E.C.: Property	5	Higher for those in older, converted buildings and for those that have working kitchens.
Business Interruption	4	-----
Inland Marine	3	-----

Risk Level: Low 1-3; Medium 4-6; High 7-9; Very High 10
Source: Best’s Underwriting Guide

