
The

Risk Retention Reporter

Lessons From 25 Years in Captive Management

*Featuring Guy Ragosta, CEO
The Towner Management Group-U.S.*

What does it take to build a successful risk retention group? Guy Ragosta, CEO of Towner Management Group's U.S. operations, gives a simple answer – member involvement and long-term commitment.

He should know. Ragosta has been in captive management for more than 25 years. He and partner, Len Crouse, together have licensed some 900 captives including a host of RRGs. "The rules haven't changed in the 25 years since the Liability Risk Retention Act was passed. RRGs formed then with a long-term commitment and hands-on member leadership are thriving today," Ragosta pointed out.

The third fundamental key to success for RRGs is a strong capital base, according to Ragosta. "Without adequate capital to sustain growth, a commitment to stay the course through soft markets, and a Board composed of members who look beyond the next insurance cycle, a RRG is headed for trouble. That's why we walk away from prospective clients who don't fit this model."

After earning a Bachelor of Science in Accounting at Manhattan College, Ragosta joined Ernst & Ernst where he helped the firm get into the captive business working in the Burlington office just as Vermont was emerging as a leader in licensing and regulating captives. When Ernst closed its Burlington office, Ragosta joined KPMG as director of tax services to the Vermont captive insurance industry. He moved on to Willis where, as regional executive director of the Captive, Actuarial and Pooling Solutions Division, he helped create an international consulting network with 14 offices in the U.S. and Caribbean.

"After decades as a consultant, I decided to try something different and took up an offer to become CEO of Marathon Health, a preventive healthcare company. It was a good experience in day-to-day management, but after a couple of years I was ready to get back in the captive business," he recounted. Ragosta joined up with his long-time friend Len Crouse, who had been director of Captive Insurance for the Vermont Department of Insurance, to launch a management and consulting enterprise. They were determined to form an independent organization focused exclusively on captive management without any external agenda. Through a former business

associate and friend, Chris Towner, they came up with a win/win solution. Towner's business was almost exclusively licensing and managing captives in Barbados, and he was looking to gain a foothold in the U.S.

Ragosta and Crouse launched Towner-U.S. in 2008. Today, they've built an organization that's managing over \$1 billion in premium, including some of the largest RRGs. "Len Crouse, our partner Tom Stokes, and I bring together more than 100 years of experience in captive management and consulting which we match up with customers who appreciate that value proposition. We're not affiliated with any broker. Independent advice not tied to any other agenda is what we offer," he declared proudly. "Our core business is regulatory compliance, accounting, and administration plus consulting." TMG provides turnkey management to all types of captives and designs alternative risk transfer solutions to meet the needs of each client. Management services include

Guy Ragosta CEO

Company: The Towner Management Group-U.S.

Organizational Structure: Captive management and consulting group

Experience: Over 25 years in captive management

Education: B.S. in Accounting, Manhattan College; Certified Public Accountant.

Industry Commitment: Past President, Vermont Captive Insurance Association; Board Member, Captive Insurance Companies Association.

Proudest Professional Achievement: "I'm proud that Len Crouse, Tom Stokes, and I, along with our great team of professionals, in a little more than three years have created a management and consulting company that has attracted major industry clients and continues on a path of solid growth."

Greatest Professional Challenge: "Making sure we have a succession plan so the company will have the best people in place to serve our clients when we walk away."

incorporation and licensing, administration and accounting, Board support, locating independent directors as needed, and access to secure reinsurance among others.

Here are some lessons Ragosta has learned that he believes are important to a management and consulting practice that helps build successful captives and RRGs:

1. **Every client is different.** "We work closely with each prospect to determine their specific needs. Our senior team is involved in designing the best solution whether it's one of the standard forms of captive, a RRG, or traditional insurance. We act like a quarterback on a football team."
2. **Don't be afraid to turn down an engagement.** "We've walked away from more than we've taken when it was clear that they were not qualified or ready to move ahead."
3. **Be sure the sponsor has enough capital or a credible plan to obtain the funding.** "Regulatory and rating agencies today require specific levels of risk-based capital to support premiums. RRGs that start on a shoestring can find themselves unable to grow unless their members can inject additional capital especially after a major loss."
4. **Assist RRG sponsors to develop a business plan to survive soft markets.** "Unfortunately, a number of undercapitalized RRGs failed when members were attracted away by traditional insurers that offered submarket prices to get the business. Never mind that when the market hardens, the insurer raises prices or withdraws from the particular line of liability insurance—the RRG may not be around to provide the coverage."
5. **Educate clients that there's no such thing as a risk-free program.** "Captive solutions, especially offshore where Towner has been a leader, offer tax advantages. However, sponsors must understand that there is still a risk. The same advice applies to RRGs in fields such as medical malpractice where unanticipated large losses can put companies in jeopardy."
6. **Learn your client's tolerance for risk.** "It's essential to make a detailed analysis of historical or prospective premiums and related losses, the sponsor's ability to reserve for the unexpected, and the availability of traditional insurance along with other factors before making a decision to form a captive or a RRG."
7. **Test prospective members of the RRG to determine their commitment to be deeply involved in management or oversight.** "The most successful RRGs are managed in house or through an active Board."
8. **Create a network of specialists to call upon as needed.** "When our client requires services we don't offer, we bring other disciplines to the table — in areas such as loss control, engineering, employment benefits, claims. We also work with the RRG to determine the best approach to underwriting and risk management."
9. **Don't let other business considerations affect advice to your customer.** "We believe this is best achieved in a consulting service that is independent and has nothing to gain from promoting other products or services."
10. **Build a management team that can maintain the highest quality of service to your customers into the future.** "Succession planning is essential to a management and consulting firm. It should be addressed early on to maintain the level of service as partners and founders move on."

One of the most important pieces of advice Ragosta would give to a startup or early stage RRG is to search out the most qualified consultant. "Make sure you get professional advisors that take a long-term approach to building your business and have no other interests to promote. More than half of our consulting business is rehabilitation of companies that came to us when they had serious problems," he said.

Asked his opinion on the state of the industry 25 years after passage of the federal *Liability Risk Retention Act*, Ragosta has a positive outlook. He supports legislation now before the Congress (HR 2126) that would allow RRGs to write commercial property insurance, provide a mechanism to resolve disputes with states that attempt to restrict RRG operations, and strengthen governance standards.

Ragosta and his partners believe that alternative forms of risk transfer—captives and RRGs—will continue to grow because there will always be a need for mechanisms that allow policyholders to control their own destiny.

*Reprinted from the December 2011 Risk Retention Reporter –
Volume 25, Number 12*