
The

Risk Retention Reporter

Finding the Right Home for Your Risk Retention Group or Purchasing Group

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Location, location, location

It's true in real estate and it's true in business. Location means everything. It's also true for risk retention groups and purchasing groups, because where you domicile can affect your ultimate success. While so many other considerations are critical to your program and its contribution to your group's loss control efforts, perhaps none is as strategic as finding the right domicile partner.

For this article's purposes, the focus is mostly on risk retention groups and their choices.

Domiciling risk purchasing groups is not as complicated since there is no risk retention. However, it is still important to follow the same process as RRGs. In addition, though, consider the domiciles of the insurers of the purchasing group as well as the location of your agents or brokers.

Starting your search

When beginning your evaluation for a RRG domicile, obviously eliminate domiciles that don't actively promote RRG creation. Of the more than 25 RRGs currently in existence, there are 20 or so states that have domiciled RRGs, so these would be a good place to start. Even after understanding that not all are equally welcoming or have a uniform regulatory approach, your choices are great enough to make the process of evaluation daunting.

However, growing competition among domiciles opens many possibilities for your RRG. A systematic approach, a little leg work and some input from knowledgeable industry veterans will help you make your choice with confidence. Consider these fundamental factors when starting your search:

Look for commitment

Although many states and Washington, D.C. allow RRG formation, not all are thrilled with doing so. You can rapidly narrow your search to domiciles that recognize the potential of being a RRG domicile and take the steps necessary to foster their creation. This still leaves you with many choices.

Competition for your business results in opportunity for your RRG. Competition is a wonderful thing because it leads to cost reduction, more efficient utilization of

available resources, and new and better ideas. Of course, there are winners and losers in any competition. Look for those domiciles which have proven they value RRG business and have a track record for responding to issues as they arise.

Risk purchasing groups also need to look for a domicile's commitment. Some states without captive statutes require groups in their jurisdictions to follow the same requirements imposed upon commercial insurers domiciled in their states. These requirements are dictated by the National Association of Insurance Commissioners, which will likely lead to more oversight than needed and additional compliance costs.

Generally, NAIC requirements for commercial insurers are geared to protect uninformed insureds who need protection from potentially insolvent insurers. RRGs and purchasing groups don't need these protections. Both usually have homogeneous risk with significant loss development information and a controlled group of insureds. Look for a domicile where groups are regulated pursuant to its captive statutes, resulting in more flexible regulation and lower operating costs.

Striking the balance

The majority of these domiciles strive to strike a balance between legislation and flexibility. These domiciles win because rigorous, but flexible, legislation helps prevent structural breakdowns that could tarnish domiciles' reputations. RRGs benefit because they get the freedom needed to achieve adequate funding and cost-effective coverage, while still submitting to appropriate regulatory oversight that protects members. RRGs require flexibility to provide for members' insurance needs, especially when commercial insurance is unavailable or too expensive.

Many domiciles have, over time, developed reputations for achieving this balance. However, balance means different things in different situations and industries. Just because a domicile has a great reputation does not necessarily make it appropriate for every RRG. It may not make sense for southwestern U.S.-based companies, for instance, to locate their RRGs in a domicile halfway across the country unless there is a specific advantage.

Captive-friendly legislative environment

It is vitally important when researching potential domiciles to learn whether they exist in an atmosphere of constant refinement. Look at legislative agendas to determine whether issues relevant to your group are raised and acted upon. RRGs should know that a domicile's legislature, regardless of political party, takes pains to understand the needs of your industry.

When domiciles continually update statutes to keep them current with developing insurance and related issues, it illustrates a commitment to their captive base. While a domicile's experience can help you decide where to locate, know that experience doesn't necessarily make for a RRG-friendly environment. Look for dedication and responsiveness, as evidenced by positive legislative activity.

Captive-dedicated regulators

While legislative dedication and responsiveness are important, the quality of regulators and how they interpret the federal law give clues to a domicile's true value. Look for knowledgeable, experienced, and dedicated regulators when evaluating a domicile. Meet with them to best learn how they and their domicile may accommodate your needs now and in the future, while providing balanced oversight.

Not all domiciles have regulators whose only responsibility is the health, vitality, and growth of alternative risk vehicles. Some domiciles allocate staff with other duties to tend to captive issues on an as-needed basis. Developing key, long-lasting relationships may be difficult in the latter instance.

Committed regulators should participate in outreach opportunities to prospective and existing RRG and PG owners and managers through participation in industry events, such as those sponsored by the National Risk Retention Association, and other educational opportunities that demonstrate the domicile's dedication and commitment. Regulators must understand RRGs, PGs, and the Liability and Risk Retention Act of 1986 as well as they do other types of captives and insurers in their state.

Costs

In order to strike the right balance of operating costs with other competitive factors, you should compare capital requirements, surplus standards, and other variable costs such as taxes, fees, and assessments. Groups have members that band together because sharing risk and premium with each other is cost-efficient. But that isn't the only reason.

Choosing a domicile solely on the basis of operating costs can backfire quickly. When presenting arguments to prospective group members about your choice of domicile, make sure to stress the importance of meeting the group's long-term needs versus saving a few dollars in the short term.

Making the decision

After examining all of these factors, review your findings. Identify domiciles that exhibit the regulatory balance your group seeks, weighing freedom of operation with a solid regulatory framework and balanced oversight.

Research your potential domicile's legislative environment throughout different administrations. Look at the domicile's history of statutory changes and improvements, which are important indicators of legislative support.

Meet with regulators to measure their enthusiasm for their domicile. Ask for examples demonstrating how they worked with owners in various situations. An economical way to accomplish this is to attend conferences where many domiciles actively participate in events.

Talk with RRG and PG owners and managers, attend industry functions, and contact experienced professionals for feedback to ensure that your prospective domicile can meet your demands for flexibility.

Finally, compare costs when all other factors are equal. While operating cost considerations are certainly important, make sure to weigh all other factors before coming to a conclusion.

Now you're ready

Competition among existing domiciles gives you a wide variety of choices, whether newly forming or redomiciling your group. When you fully understand all that prospective domiciles have to offer, you can make a better informed decision about where to locate and maintain your group. Carefully examine prospective domiciles and weigh their advantages and disadvantages to find one that best meshes with your goals, acts in the best interests of your group members, and can help set you firmly on the road to success.

There is a lot of information out there. Consider partnering with an experienced, independent insurance consultant to help you choose the best-fit domicile and maintain an operating strategy that ensures both initial and continued success.

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