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# What Medical Professionals Should Know about Risk Retention Groups (RRG)

The US medical professional liability (MPL) marketplace is in a tough spot. According to a recent AM Best report, MPL insurers suffered a sixth consecutive year of underwriting losses in 2020, with a combined ratio of 112.5%.

The global rating agency attributed the market deterioration to the past decade of soft market conditions with inadequate rating to deal with medical loss cost inflation, the impacts of social inflation, declining reserve redundancies, and the sustained low interest rate environment.

As a result, the MPL marketplace has hardened. Many carriers continue to protect their balance sheets by making double-digit rate increases, reducing limit capacity, and tightening coverage terms and conditions.

With rates on the rise, some insureds are moving from the traditional insurance marketplace to alternative risk transfer mechanisms like self-insurance or risk retention groups (RRG) for MPL coverage.

While RRGs can be an effective risk transfer vehicle, the decision to move risk shouldn't be reactionary based on price—it should be a well-informed decision. RRGs are a long-term commitment, and they have some common pitfalls, so clients need to go into the arrangement with their eyes wide open. Retail brokers should investigate and research the proposed RRG so they can protect their clients' interests and goals.

## CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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## Four Common Considerations for RRGs

There are several things that retail brokers and insureds should consider before moving their MPL risk into an RRG.

1. **Contractual coverage obligations:** It's important to look for potential contractual violations if the risk is moved to an RRG.
   - Would joining an RRG violate a contractual requirement to be covered by an AM Best rated carrier?
     - Many RRGs have a Demotech rating, but they're not AM Best rated.
     - Some RRGs are owned by commercial carriers and have a cut-through endorsement, while others don't.

2. **Financial risks:** Does moving the MPL risk present any other types of financial risk?
   - What is the RRG's financial track record. Is it well capitalized and poised for long-term stability?
   - Are there any significant capital contribution requirements for being part of the RRG in addition to the premium?
   - Does the client need excess liability coverage over the RRG?
     - Most commercial carriers refuse to write excess liability coverage over an RRG.

3. **Long-term strategy:** Does the RRG align with the client's long-term goals?
   - If the client is planning to expand into other states, can the RRG write in those states?
     - If the RRG has limited underwriting capability, that could pose a problem for the insured.
   - Does the client want the ability to return to the commercial market at some point?
     - Commercial carriers tend not to accept prior acts coverage from RRGs, making it difficult to secure MPL coverage in the commercial space after participating in an RRG.

4. **Broker Liability:** Retail brokers should investigate whether their own errors and omissions (E&O) insurance will cover them if they place their clients' coverage through an RRG and there are unforeseen issues.

## Alternatives to RRGs

Beyond RRGs, there are other ways that retail brokers can help their clients mitigate MPL rate increases and coverage restrictions.

**Improve risk quality:** Brokers should be risk management advisor to clients, showing them how to become a more attractive risk to carriers.

- What risk management solutions does the client have in place to minimize the potential for future claims? What programs can the client implement that will appeal to underwriters?

**Up-to-date insurance options:** Retail brokers should consider partnering with a wholesale broker like Amwins—a strategic partnership between a wholesaler and a retailer can expand market options with:

- Access to new markets
- Data and predictive tools
- A high-level of expertise and specialization—including strategies for restructuring the program to fit market realities and avoid risks of RRGs

## Takeaway

An RRG is a great vehicle for certain clients—there are many long-standing and very effective RRGs with proven track records and commercial carrier support. The insureds in those RRGs, however, have made an informed decision to go into the RRG and they understand that it's a long-term commitment.

Retail brokers and their insureds must do their research and make an informed decision. With many variables to consider, it's not a move an insured should make in reaction to price increases in the commercial marketplace.

### About the Author

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