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The

Risk Retention

Reporter

Advice on How to Build a Successful RRG From the CEO of the Nation's Largest Management Group

Featuring Michael T. Rogers, Chairman & CEO, Risk Services, LLC

Launching a risk retention group is a daunting task, so we turned to the industry's largest RRG management company, Risk Services, LLC, for advice on how to build and grow an RRG into a successful competitor. Michael Rogers, with his team, created and manages 36 RRGs that generate more than $150 million annual premium.

After graduating from the University of Bath, England—his home town—Rogers became a Chartered Accountant (the English equivalent of CPA) and sought his fortune in North America. After stints as a Principal Examiner with the Ontario Insurance Department and an auditor in Toronto and Bermuda with Deloitte Touche, he answered a small-print ad in *Business Insurance* for a job with a start-up captive manager in Vermont. That start-up became the launching pad for Risk Services, LLC. It was 1987. The captive management business was in its infancy and the Liability Risk Retention Act had passed Congress just a year earlier. The stage was set for a new industry. Rogers saw the potential and became a pioneer in the formation and management of RRGs.

Today, Rogers and his team provide a menu of captive management services to RRGs ranging from physicians' groups, long-term care facilities, and hospitals to construction and transportation companies, franchisees, pregnancy counseling centers, and auto warranty companies. With some 150 employees in all disciplines of insurance/reinsurance management and nine offices in the U.S., plus an international office in Bermuda, Risk Services tailors each program to the needs of the individual RRG and is easily accessible to every client. About 20 percent of their clients contract for total administration to include accounting and financial management, regulatory compliance, underwriting, policy issuance, risk management, reinsurance, and other services as needed. All their clients depend on Risk Services for licensing and regulatory compliance.

The source of Risk Services business often is a Managing General Agency (MGA)—Program Manager—with client groups that have difficulty obtaining reliable, affordable insurance from the traditional industry. "For these programs, the MGA provides the underwriting expertise, with Risk Services providing wrap-around captive management and reinsurance intermediary services. For other programs, we provide a full smorgasbord of policyholder services using our internal resources," Rogers said.

For any Program Manager or Affinity Group that's considering formation of an RRG, Rogers suggested these guidelines:

1. *Go with a Pro*—Getting an RRG off the ground successfully is not a do-it-yourself project. Any group considering the RRG business model faces a complex task that includes developing the corporate

Michael T. Rogers
Chairman & CEO

Company: Risk Services, LLC

Organizational Structure: Limited Liability Corporation that builds and manages RRGs

Education: BSc-Business Administration, University of Bath, England;

Certifications: Fellow, Institute of Chartered Accountants of England and Wales; Associate, Canadian Institute of Chartered Accountants; Associate, American Institute of Chartered Property/Casualty Underwriters; Licensed Property/ Casualty and Surplus Lines insurance agent in Florida and other states.

Experience: More than 20 years in captive management; pioneer in formation and administration of RRGs.

Proudest Achievement: I am very proud of becoming the largest manager of RRGs in terms both of total under management and the greatest number of newly created RRGs in a single year. I am also proud of the independent customer satisfaction survey of Risk Services clients that ranked the Company 10 out of 10 for its service and staff expertise across all functions. These survey results reflect the dedication, loyalty, and professionalism of our staff and our partnership with RRG clients.

Company Goal: Our goal in any given year is to create five or more new RRGs and to assist our existing RRGs in the marketing and growth of their programs.

Industry Goal: To help the industry convince Congress to expand the Liability Risk Retention Act to include property lines.

> "Our strongest asset is our ability to assist a startup program to become licensed and operational quickly and in a cost effective manner....Our large number of RRG clients has enabled the development, over time, of a huge database of corporate, contractual, regulatory, and operational expertise to guide our clients. They recognize from the beginning that the relationship is a long-term partnership." **Michael T. Rogers**

documents, capital contributions, preliminary marketing, board development, selecting state of domicile, licensing, and registering the RRG in other states where it plans to do business. "You need an experienced hand to guide you through the process," Rogers cautioned.

2. *Due Diligence Essential*—Be sure to check the track record of any captive manager you're considering. How many RRGs has the organization launched? How many are under management? Talk with the manager's clients.
3. *Flexibility to Meet Your Needs*—Are you seeking total management: the full range of services including administration, underwriting, claims and risk management, reinsurance, regulatory compliance, and marketing? Or do you have existing relationships that provide some of these functions. Select a captive manager that can tailor services to your specific requirements.
4. *Specialist Best Qualified*—Rogers strongly believes that RRGs are best served by managers whose primary business is RRG administration and who have the professional staff to provide the full range of services. "Early in Risk Services' history, we decided that our niche would be the somewhat underserved area of program business, an area that requires very different skill sets than those needed to manage single-parent captives. Our approach is built around 24 - 7 service," he observed.
5. *Compensation Package/Long-Term Partnership*—The manager's compensation should be based on a percent of premium. "Our RRG clients recognize from the beginning that the relationship is a long-term partnership," Rogers said. "In the early years, premium volume and fees tend to be low and the RRG relatively simple to manage post licensing. As the programs mature and premium volume grows, the programs become more complex and need more extensive management services," he explained. The fee formula stays the same, but the amount grows with the RRG. It's a win-win for the RRG and the manager.
6. *Governance*—Rogers believes the success of any RRG depends on strong Board leadership: "We recommend a blended Board with the majority of directors coming from the insured industry, supplemented by insurance professionals. Initially a small Board is most effective with the Board size and meeting frequency increasing as the RRG grows in size and complexity. As the Board grows, many decisions are delegated to specific committees such as investments, underwriting, marketing, finance, and audit. Down the road, it's healthy to bring in new blood through staggered terms," he said.
7. *Reinsurance*—Most RRGs require reinsurance to protect against severe losses, and a few buy quota share reinsurance to enable growth. Rogers cautioned against purchasing reinsurance from any company with less than an "A minus" rating from A. M. Best.
8. *State of Domicile*—"I tell our clients that the best domicile is the one that expedites the initial licensing application for admission and, once licensed, treats its captives fairly and has a good relationship with its captive manager." Rogers said. He advises clients generally against choosing the state where its operations are based as the state of domicile. Today, there are 29 states with captive legislation, Rogers pointed out. "I don't have any favorites so long as the state is accredited by the NAIC," he noted.
9. *Rating Important*—Rogers believes ratings are important but recommends against seeking a rating until the RRG can qualify for an "A minus" or better. "Where there are third-party certificate holders that require a rated company, Demotech provides an excellent alternative to A. M. Best if the RRG has the capital base and operational structure to qualify for a Demotech rating. Many Risk Services clients have secured an "A" rating from Demotech, and several hold an "A minus" rating from A. M. Best," he pointed out.
10. *Regulatory Expertise*—Look for a manager that has a strong regulatory division that interacts with all 50 state regulators, Rogers advised. "Managing a large number of RRGs develops a huge database of regulatory filing and premium tax reporting information that's invaluable to clients."

What's ahead for the industry? Rogers believes the number of RRGs will continue to grow, but he sees a new trend beginning to emerge—consolidation. "Reaching critical mass for new RRGs is difficult even in a hard insurance market due to the need for both a premium and a capital contribution. The current soft insurance market has seen several RRGs close down, more often due to lack of premium production than due to losses. In 2009, we saw for the first time several potential mergers of existing RRGs. I think that trend will continue as some smaller RRGs struggle to reach critical mass," Rogers predicted.

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