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The Risk Retention Reporter

The Purchasing Group Marketplace Today

This is the first in a two-part series on the state of the purchasing group marketplace. In December, the second part will focus on the outlook for next year and beyond. Three industry leaders shared their views with us: Daniel V. O'Leary, partner in the firm of Mandell Menkes LLC; Michael Schroeder, Chairman of the Board of three purchasing groups in the alternative healthcare field; and Diane Sheakley, principal, Captive Insurance Services, Inc.

PG Statistics

Number of PGs nationwide: 876

States with no domiciled PGs: Alaska, Louisiana, New Mexico, West Virginia, Wyoming

Domiciles with most PGs: Delaware 158, Illinois 154

Number ofStates that charge fees: 30

Highest total fees: Oklahoma ($400 initial/$400 annual)

In your view, what is the state of the purchasing group sector today?

O'Leary: From my perspective, dealing primarily with agents, brokers, and insurers, the PG market is healthy and growing. I've added two new, 50-state PGs this year, and three or four more are in the pipeline.

Schroeder: The PG sector is healthy even in today's soft market as PGs continue to fulfill their original purpose of providing coverage to markets underserved by the traditional insurance industry. I know from association experience that when carriers abandon a niche market, those affected band together to form a risk purchasing group—just as Congress intended when the Liability Risk Retention Act was amended in 1986 to enable PGs to write commercial liability insurance.

Sheakley: The PG market is continuing to grow but more slowly than in the past. Over the years, brokers and insurers have come to understand the benefits of providing stable, affordable insurance with relief from some burdensome state regulatory requirements. Extensive training programs and national seminars have educated the insurance community on the value of purchasing groups even in today's soft market.

How has the extended soft market affected purchasing groups under your management?

O'Leary: I do not deal with marketing issues in my practice, so I don't feel the direct effect of soft or hard markets. However, my practice has continued to grow in the current market.

Schroeder: Not at all! PGs under my organization's management have grown an average of 22 percent annually over the last 12 years. This year alone, they've grown 300 percent as the market began to harden in my niche—massage therapists, acupuncturists, chiropractors—while some carriers withdrew from these lines.

Sheakley: While there has been some slowdown in the growth of PGs in the soft market, new PGs continue to be created due to the ease of forming these groups under the Liability Risk Retention Act, the fact that most states now accept standardized notices of registration along with relaxation of the non-resident Surplus Lines license laws and requirements pertaining to non-resident producers.

In today's market, what are the main reasons to form purchasing groups?

O'Leary: Brokers like the economics of scale offered by purchasing groups, which they use effectively in marketing programs. The savvier brokers put PGs on their websites, sign up policyholders online, collect premiums, and issue certificates under master policies.

Schroeder: Members of affinity groups choose PGs because they can join together and get tailored coverage, lower rates, specialized underwriting plus stable, available coverage in any market.

Sheakley: One of the biggest reasons for forming PGs today is the need for speed in getting an affordable program to the marketplace, either in competition or retention. A startup purchasing group can be up and running in as little as seven to 14 or 30 days and in full, national operation in no more than 120 days—compared to traditional market programs that can be subject to long delays in reaching full operation across the country.

In the current market, what do you think are the strongest incentives for insurers to write insurance for PGs?

O'Leary: Simple—insurers can generate a large volume of premiums with less paperwork. Policy issuance is easier with certificates issued to individual policyholders under a Master Policy. The insurer works with the broker to set the premiums and lets the broker do most of the work.

Schroeder: PG business usually is very profitable for insurance companies. We understand the risks in the classes of business we write, so the insurers benefit through our selective underwriting. We know how to identify and avoid the five percent of practitioners who account for almost all the claims.

Sheakley: Purchasing groups provide the vehicle for aggregating numerous accounts into one large pool, enabling carriers to obtain critical premium volume and loss data to establish rate levels. Carriers can achieve economies of scale in the underwriting, distribution, administration, and marketing of their programs along with specialized coverage at favorable rates—all of which result in business retention. Insurers also enjoy the advantage of the LRRA's preemption of state regulation in key areas that include fictitious group laws and countersignature laws as well as flexibility in rates, forms, and coverage.

As the market is today, what are the incentives for people to join a PG?

O'Leary: Most insureds don't even know they're joining a PG. They're just buying insurance. The main reason people buy insurance through a PG is that successful PGs deliver good products at lower prices.

Schroeder: They join for tailored coverage, lower rates, specialized underwriting, and availability in hard and soft markets.

Sheakley: As members of a group, insurance buyers generally have negotiating power with a carrier that is otherwise unavailable to them as individuals. This negotiating leverage is a strong bargaining tool, especially where several insurers are competing to acquire or retain a profitable book of business. Also, I keep hearing that PGs pass favorable loss experience along to group members in the form of dividends or premium credits.

Is the fact that PGs are not allowed to write commercial property and workers' comp a major concern? Has it limited your business?

O'Leary: Yes—for a number of businesses, there's a property or inland marine component that cannot be met by a PG. Denying PGs the authority to purchase commercial property does not make sense. The risk is borne by insurance companies that are fully qualified to write property, whereas most risk retention groups are small companies that lack the capital and experience to write commercial property. From a financial perspective, I can understand why RRGs are not permitted to write property, but it is not logical to restrict PGs from buying property insurance.

Schroeder: It's not a major concern. Workers' comp isn't an issue, but our insureds want business owner policies [BOP] along with their liability coverage. So, we write the liability through our PGs and go to other companies for the BOP cover.

Sheakley: The inability to write commercial property or workers' comp has definitely proved a hindrance but not a major concern. I often get questions or complaints on this topic, but there are solutions outside the group. Nonetheless, I believe this restriction limits business at times, with a resulting inability to retain business. It also hinders cross selling of products.

In your view, what are the current, biggest obstacles to PG operations?

O'Leary: Initial and annual state filing fees. Purchasing groups as such don't have capital or income so the funds—except in the case of association-sponsored PGs—come from the broker or the carrier. Initial filing fees for the 50 states total $5,800, and the annual renewal fees aggregate $3,800. In addition to the fees, some states expect the PG to provide information about the admitted carrier that is available directly from the insurer. These and other state regulatory demands are serious deterrents to the operation of small PGs.

Schroeder: The two biggest obstacles to PG operations are bureaucratic requirements imposed by some states and the fact that carriers come and go frequently.

Sheakley: Finding a carrier, as the arena of insurers interested in PG business has dwindled, and regulatory bureaucracy in some states, especially when an initial registration is being filed.

Are there solutions that you would recommend to improve the marketplace?

O'Leary: Reduced state filing fees would help.

Schroeder: Yes. First, allow PGs and RRGs to write property insurance. Second, create a federal ombudsman to deal with illegal regulation by some states. We solved the problem of carriers coming and going by creating a risk retention group to insure our PGs. This has worked well. The PGs have access to stable, affordable insurance, and the RRG has been consistently profitable in hard and soft markets.

Sheakley: I recommend that all states adopt the NAIC model laws to achieve standard forms for the initial registration filing. This would speed up the process of bringing national programs to the market.

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