A Special Reprint from

The Risk Retention Reporter

The Future of the Purchasing Group Marketplace

This is the second in a two-part series on the state of the purchasing group market place. Last month's report focused on the current market. We asked the same three industry leaders their outlook for the future: Daniel V. O'Leary, partner in the firm of Mandell Menkes LLC; Michael Schroeder, chairman of three purchasing groups in the healthcare field; and Diane Sheakley, principal, Captive Insurance Services, Inc. Here's what they had to say:

It's been 26 years since the Liability Risk Retention Act was signed into law. Do you think PGs have a role to play in the future of Alternative Risk Transfer mechanisms?

O'Leary: Yes. When the LRRA was first enacted, people would say "If you don't have capital, try a PG." The PGs I work with today are driven by brokers who like the economies of scale offered by purchasing groups. PGs will continue to serve this market in the future.

Schroeder: The outlook for PGs is positive. They will continue to serve niche markets that traditional carriers abandon. Members of affinity groups want tailored coverage and lower rates, along with stable, available coverage in hard and soft markets.

Sheakley: Absolutely. I believe professionals who fully understand and widely utilize the PG concept will be those who provide buyers what they need—homogeneity, the desire to expand into more states, the potential for generating premium volume and other value-added services. PGs will continue to fill these needs in the future. Remaining competitive and developing niche markets are the keys to survival in this economy. The next step for some larger PGs will be the opportunity to merge into a risk retention group or group captive.

Do you think the PG marketplace will grow or diminish in the next five to 10 years?

O'Leary: PGs will continue to do well in their niche and grow along with the overall insurance market.

Schroeder: The number of PGs will grow slowly. When the overall insurance markets harden, traditional companies will bail out of some smaller, specialized lines. This will create new opportunities to form purchasing groups.

Sheakley: The need to form new PGs will still exist. The trend toward group purchasing will continue in almost every class of liability insurance. The LRRA has changed the group buying market and is still changing the role of agents and brokers. In order to remain competitive, they must add value to their programs. PGs provide an important vehicle for the broker market to serve groups. So, I expect the PG marketplace to grow, although more slowly.

Insurance forecasters are claiming the market could turn in the next year. How do you expect purchasing groups to perform when the market hardens?

O'Leary: PGs should do well in the hard market. Carriers will still be willing to write programs that offer a broad spread of risk. When a broker brings an insurer, for example, a thousand massage therapists, the insurer gets the economy of scale. This will continue to be an incentive to use the PG mechanism.

Schroeder: They will perform well. PG business is profitable for insurers so they'll keep the doors open for affinity groups with good track records.

Sheakley: In some cases, groups could be left scrambling to find carriers willing to write unprofitable programs. I've seen a few occasions where this has happened. I'm also seeing the number of insurers willing to write liability programs dwindle. The need for PGs will continue, but groups and brokers will be challenged to find carriers to write other than the best business.

Is the uncertain availability of insurers willing to write liability in hard markets a strong deterrent to PG growth?

O'Leary: I don't think so. Companies will continue to insure sound programs with good loss experience.

Schroeder: Yes. In a hard market, some insurers will back away, but PGs with good group experience will continue to find carriers.

Sheakley: This deterrent can be seen at work today. However, while a deterrent, it can also be viewed as an opportunity or as a driving force for change, expanding upon or improving the provisions of the LRRA—such as amending the act to include commercial property. The pace of forming new PGs will slow down, but PGs will continue to provide a cost-effective way to provide affordable, stable liability coverage.

Since 2002, the National Risk Retention Association (NRRA) has proposed expanding the Liability Risk Retention Act to include commercial property. Active support for legislation has come primarily from RRGs rather than PGs. Why so little interest on the part of PGs?

O'Leary: PGs have neither shareholders nor capital. The policyholders do not really participate in management or governance in the same way that the shareholders of a RRG do. Consequently, there is little opportunity to discuss the need for property coverage amongst the policyholders of a PG.

Schroeder: Most PGs don't know the National Risk Retention Association exists. They're focused on their own niche business. Some PGs do become aware of NRRA when they form risk retention groups to provide a dependable source of affordable coverage, but they are a small part of the PG marketplace.

Sheakley: The desire to amend the LRRA to include commercial property is present. The questions have all been raised, and the need is known. However, the communication piece is missing, so there's no peer pressure to get involved. Also, many of the PGs I manage are the smaller groups, startups, or inexperienced groups. They don't have the money to subscribe to industry journals, let alone help fund NRRA.

Is there any movement on the part of PGs to join actively next year in a campaign for legislation that would amend the LRRA?

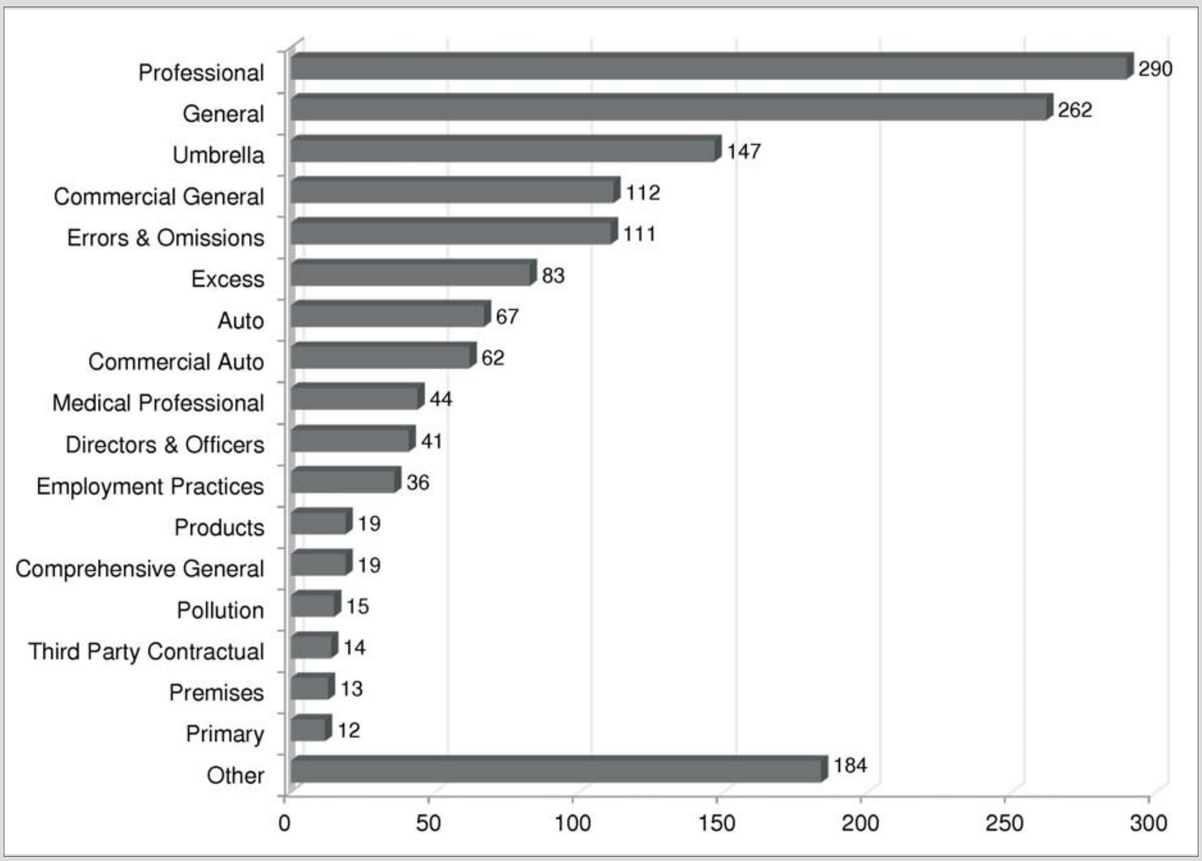
O'Leary: No. I do not see any interest on the part of those PGs I work with to get actively involved in a campaign to amend the LRRA.

Schroeder: One way to get PGs interested is to focus the campaign on amending LRRA to include commercial property. RRGs have a strong interest in creating an enforcement mechanism to resolve disputes with non-domicile states, but preemption is not a big issue for PGs generally.

Sheakley: PGs, agents, and brokers already recognize the benefits to PGs of extending the LRRA to include commercial property—it just needs to be addressed to enlist engagement in a campaign for legislation to amend the LRRA. This topic should be featured at conferences of the national agent and broker associations.

Purchasing Groups by Lines of Coverage

The 878 currently active purchasing groups provide coverage of nearly 100 types of liability insurance. The primary lines that PGs insure are Professional Liability and General Liability.



Reprinted from the December 2012 Risk Retention Reporter — Volume 26, Number 12

RISK RETENTION REPORTER — Published by INSURANCE COMMUNICATIONS, P.O. Box 50147, Pasadena, California 91115, (626)796-4972, www.rrr.com