Data at a Glance: Market Share of Risk Retention Groups

By Jennifer Gardner, NAIC Research Analyst II

The federal Liability Risk Retention Act (LRRA) was enacted in response to the availability and affordability crisis of product liability insurance in the 1980s. It was amended in 1986 to include all lines of commercial liability coverage except workers' compensation. The LRRA allows industry-specific groups of businesses with similar risk exposures to pool their risk through a form of group self-insurance. An amendment to the bill has been drafted to expand the types of coverage allowed by risk retention groups (RRGs). The proposed amendment, Risk Retention Modernization Act of 2014, was drafted to expand coverage to other forms of commercial insurance such as property and auto physical damage.

On April 10, 2014, the U.S. Second Circuit Court of Appeals ruled that the LRRA categorically preempts a New York law that allows a direct action lawsuit against an RRG. The ruling supports the provision of the LRRA that allows RRGs to operate nationally with limited regulation in the states in which they do business other than their domiciliary state. The verdict provoked inquisition regarding the relative size of premiums written by RRGs versus the property/casualty industry as a whole. The NAIC collects annual financial statements from property/casualty companies and tracks the company types, such as RRG. This article includes the results of the NAIC's market analysis on RRGs.

Per the LRRA, an RRG is:

> any corporation or other limited liability association (A) whose primary activity consists of assuming, and spreading all, or any portion, of the liability exposure of its group members; (B) which is organized for the primary purpose of conducting the activity described under subparagraph (A); (C) which—(i) is chartered or licensed as a liability insurance company under the laws of a State and authorized to engage in the business of insurance under the laws of such State…

RRGs are formed to insure groups of businesses operating in the same industry. Types of businesses insured through RRGs include construction companies, homebuilders and subcontractors, healthcare services, nursing homes and assisted living facilities, legal practices, schools and non-profit organizations, and physicians … just to name a few. Liability coverages include general liability, professional liability, commercial auto liability, errors and omissions, product liability, and professional liability.

Figure 1, derived from the NAIC 2013 financial statement filings, shows the top three lines of business written in 2013 by RRGs, which accounted for approximately 2.6% of the total liability premium written countrywide. Approximately 14% of the total premiums in the medical professional liability line of business were written by RRGs in 2013. Medical professional liability premiums made up 54% of the total premiums written by RRGs in 2013. RRGs wrote less than 2% of the total written premium in the other liability line of business, which represents approximately 38% of the total premiums written by active RRGs in 2013.

As displayed in Figure 2, RRGs were domiciled in 24 states or territories in 2013. Vermont had the highest number of RRGs, with 85 companies. Approximately 30% of the RRGs that filed with the NAIC were domiciled in Vermont. South Carolina had the second most, with 38 companies or almost 14% of all RRGs. The third highest was the District of Columbia, which had 36 companies or approximately 13% of the total number of RRGs that filed with the NAIC. Of the 278 active RRGs, 242 actually wrote business. Seven groups went out of business voluntarily in 2013 and four went into receivership.

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Figure 1: Top Three Lines of Business Written by Risk Retention Groups*

Number of RRGs	Line of Business (from Annual Statement State Page)	Direct Premiums Written (DPW) By Risk Retention Groups	Direct Premiums Written (DPW) Countrywide	RRG % of Countrywide DPW	% of Premiums Written Per Line (based on total DPW for RRG's)
135	Medical professional liability	1,385,378,618	9,784,645,857	14.16%	54.20%
74	Other liability - Total	988,264,405	52,415,683,850	1.89%	38.66%
23	Commercial auto liability	165,755,644	19,851,977,022	0.83%	6.48%
TOTAL		2,556,142,204	98,517,174,157	2.59%	

* Companies may write multiple lines of business.

Medical professional liability was the most prevalent line of business for which premiums were written. There were 135 RRGs that wrote premium for medical professional liability in 2013. Other liability total had the second highest line of business written, with 74 RRGs writing premiums in that line. Twenty-three RRGs wrote premiums in commercial auto-no fault. The remainder of the lines of business included less than five writers in each line.

Approximately 65% of the RRGs that filed as active with the NAIC in 2013 did not write premiums in their state of domicile. Seventeen of those groups did not write premiums at all, but were still filed as active. This is an important metric, as the capital requirements for RRGs are based on their state of domicile. In fact, almost 97% of the premiums written by RRGs in 2013 were written outside of their state of domicile.

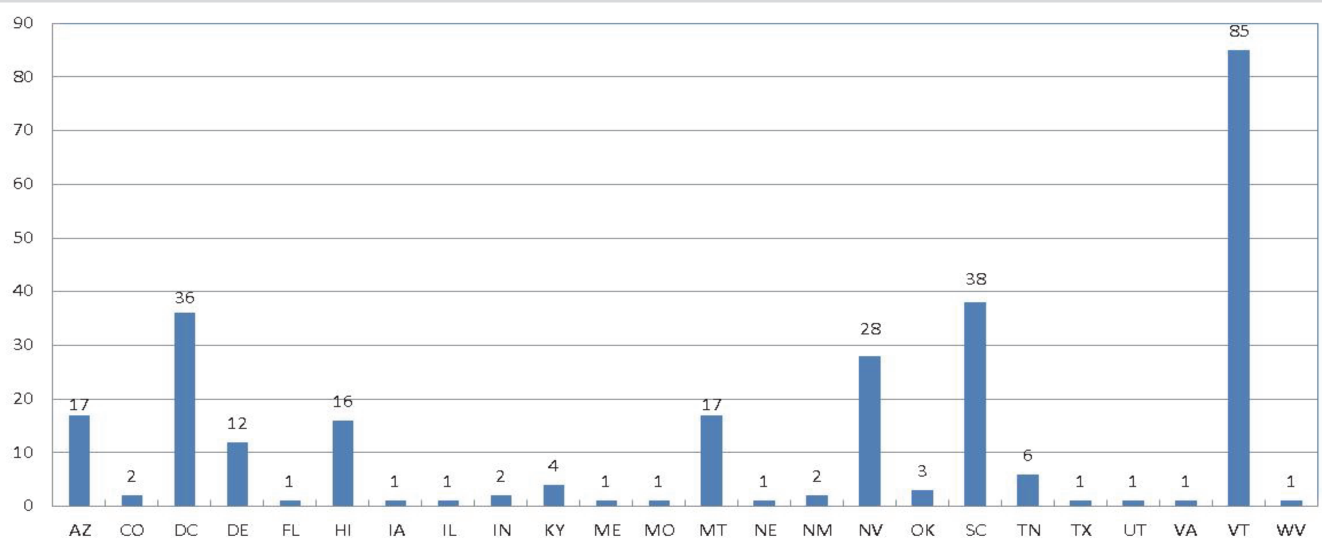
Vermont has the highest number of RRGs domiciled, with 85 active groups, and yet only 31% (or 26) of them actually wrote premium in Vermont. Only six of the 38 RRGs domiciled in South Carolina actually wrote premium in the state. Hawaii, Iowa and Virginia all had RRGs domiciled in their state in 2013, but none of them wrote business in their state of domicile. RRGs are regulated by their state of domicile and yet many of them write the majority of premiums outside of their domiciliary state.

This is an example of the information available through the NAIC. Financial statement data can be obtained through the NAIC Store at http://store.naic.org. Market share data by line and by state can be found in the *Property/Casualty Market Share Report for Groups and Companies*. More information about that report can be found at www.naic.org/store_pub_statistical.htm#market_share.

About the Author

Jennifer Gardner is a research analyst with the NAIC. Jennifer joined the organization in 2011. She conducts economic and statistical research for the NAIC and its members. She is responsible for publishing statistical and market share reports, provides support for numerous NAIC working groups and assists the state insurance departments in data collection related to catastrophe. Jennifer earned a bachelor's degree in business administration with an emphasis in finance from the University of Missouri-Kansas City. Prior to joining the NAIC Research and Actuarial Department, Jennifer worked on the State Based Systems (SBS) products and services within the NAIC.

Figure 2: Risk Retention Groups by State of Domicile



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