



Risk Retention Groups

History of Risk Retention Groups

Under the McCarran-Ferguson Act, most insurance matters are regulated at the state level, rather than federal. However, in the late 1970s, many businesses were unable to obtain product liability coverage at any cost, and the situation required congress to act.

After several years of study, it passed the Product Liability Risk Retention Act of 1981, which permitted individuals or businesses with similar or related liability exposure to form "risk retention groups" for the purpose of self-insuring. The act only applied to product liability and completed operations insurance.

Late in the 1980s, when companies faced similar issues obtaining other types of liability insurance, Congress acted again with the passage of the Liability Risk Retention Act (LRRRA), which extended the reach of the original Product Liability Risk Retention Act to commercial liability insurance. Under the LRRRA, a domiciliary state is charged with regulating the formation and operation of a risk retention group.

The LRRRA pre-empts "any state law, rule regulation, or order to the extent that such law, rule, regulation or order would make unlawful, or regulate, directly or indirectly, the operation of a risk retention group." The LRRRA also prohibits states from enacting regulations that discriminate against risk retention groups.

What is Risk Retention Group (RRG)

A risk retention group (RRG) is a state-chartered insurance company that insures commercial businesses and government entities against liability risks. Risk retention groups were created by the federal Liability Risk Retention Act, a federal law created in 1986. A member of a risk retention group must be a business.

BREAKING DOWN Risk Retention Group (RRG)

Risk retention groups are treated differently from traditional insurance companies. They are exempted from having to obtain a state license in every state in which they operate, and also are exempt from state laws that regulate insurance. For example, a risk retention group is exempt from having to contribute to state guaranty funds, which can lower premium costs but can also increase the possibility that policyholders will not have access to state funds in the event of group failure. All policies issued by a risk retention group are federally required to include a warning indicating that the policy is not regulated the same as regular policies.

Risk retention groups are mutual companies, meaning that they are owned by the members of the group. They can be licensed as a standard mutual insurer, but they can also be licensed as a captive insurer, which is a company organized by a parent company specifically to provide insurance coverage to the parent company. Examples of risks protected by RRG policies include medical and legal malpractice, however, property damage caused by a flood is not a covered risk. Policies can be owned by a group of individuals, such as a law firm, but they can also be purchased by public universities or county administrations. Members of an RRG must be engaged in similar activities or related with respect to

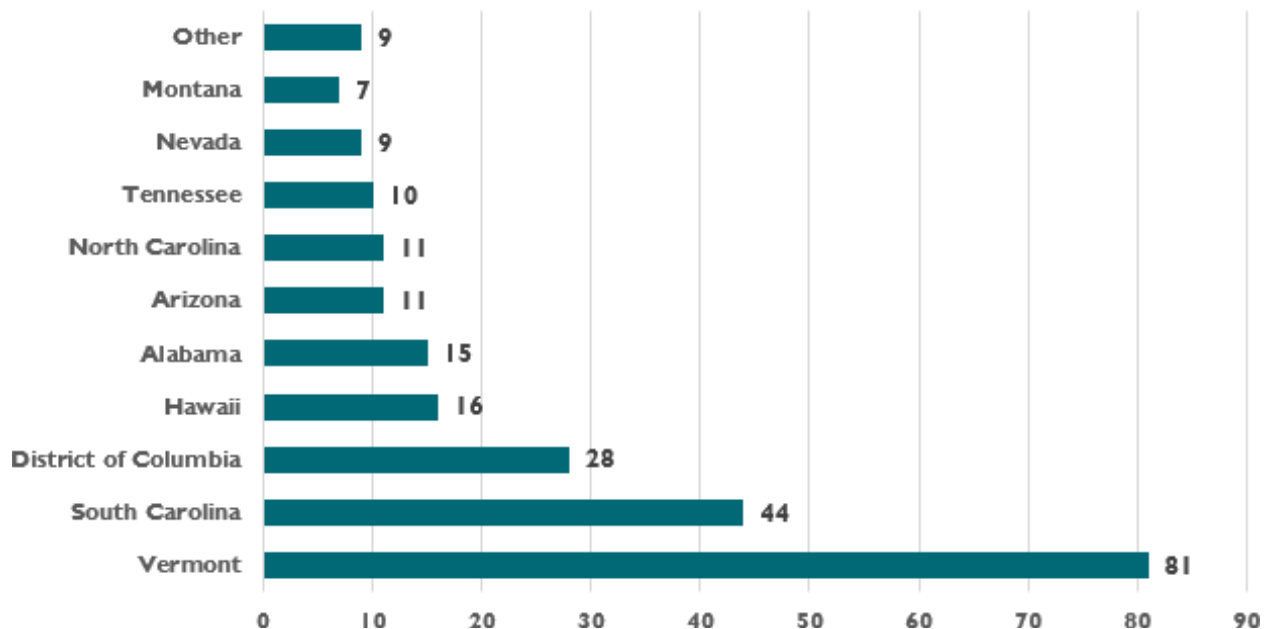
liability exposures by virtue of any related or common business exposure, trade, product, service, or premise.

The number of risk retention groups is likely to increase when insurance is either unavailable or unaffordable. While they may be popular in some business climates they still must follow certain state regulations, including non-discrimination and anti-fraud requirements. Risk retention groups may also be required to provide regulators with more information about their financials in order to ensure that they are financially solvent.

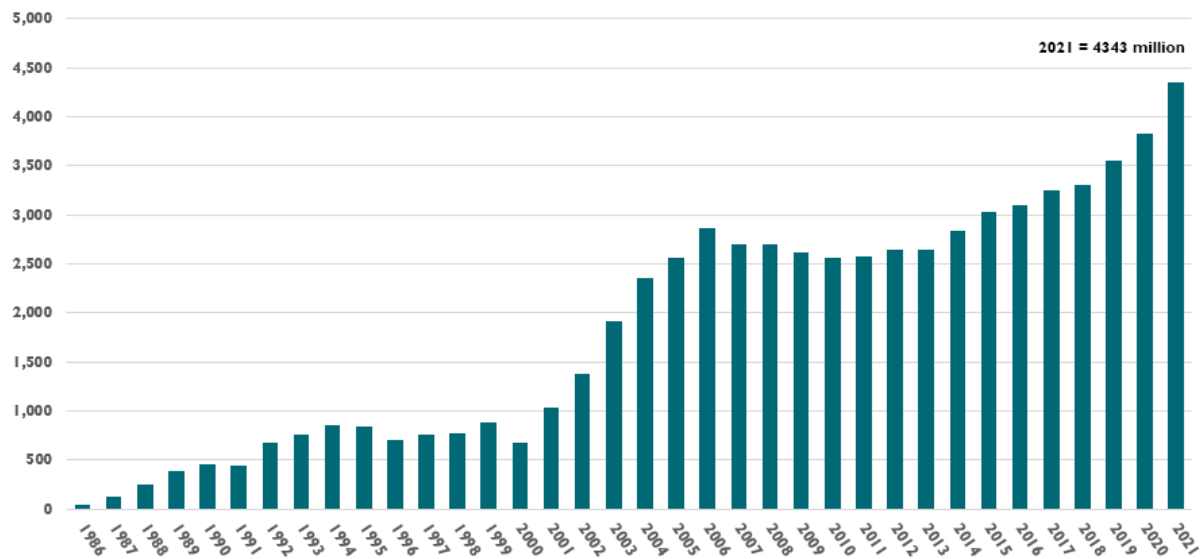
Benefits of Risk Retention Groups

- Program control
- Long-term rate stability
- Customized Loss control and risk management practices
- Dividends for good loss experience
- Access to reinsurance markets
- Stable source of liability coverage at affordable rates
- Multi-state operations

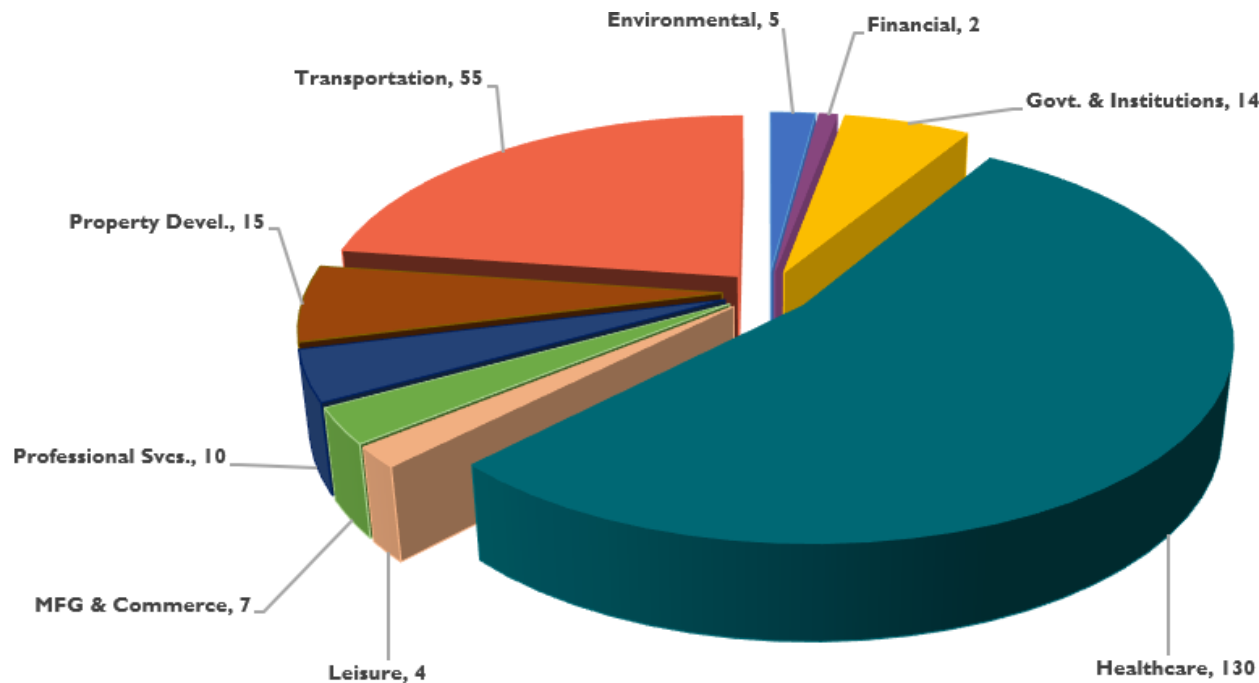
Operational Risk Retention Groups from 1987 to 2022 (242) *Charts Courtesy of the Risk Retention Reporter*



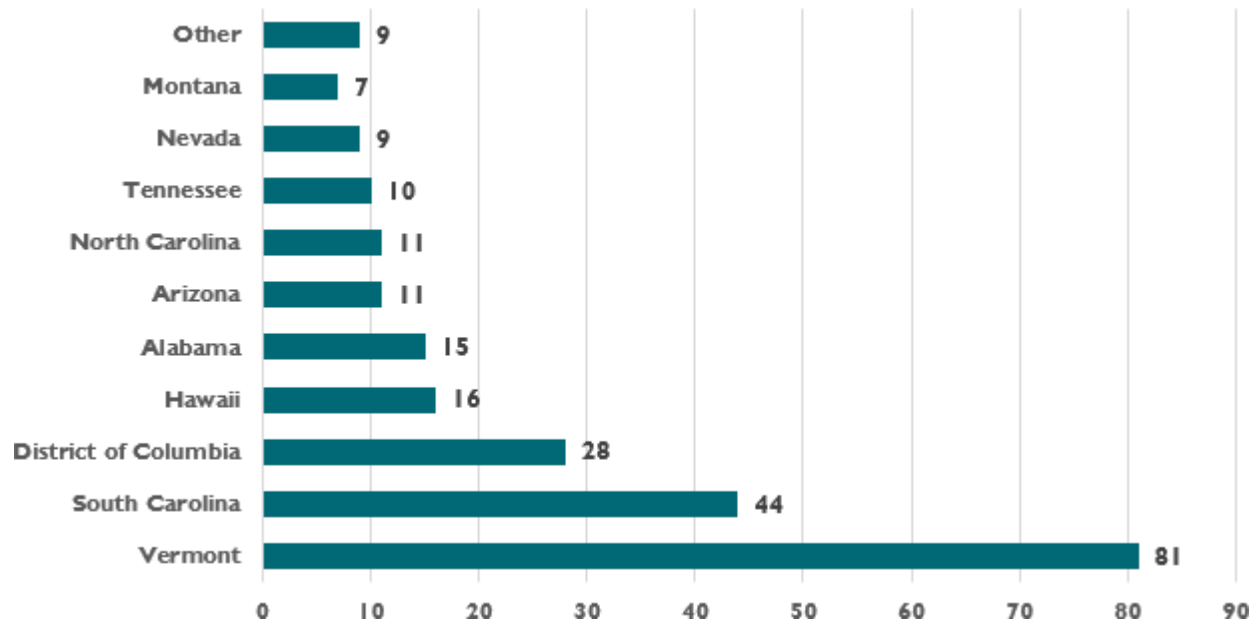
Risk Retention Group Premium from 1987 to 2022 (\$M) (\$434.3 B)



Operational Risk Retention groups as of 2022
Transportation – 55 – 2nd Largest Sector



Leading Risk Retention Domiciles – 2022





Frequently Asked Questions

How was Timber Creek Casualty Insurance Company Inc., A Risk Retention Group (TCCI) created?

TCCI was created under the federal law, The Liability Risk Retention Act (LRRRA). TCCI is a mutual insurance company. It was created by transportation specialists who wanted to do something to control their cost of liability insurance.

What is the Liability Risk Retention Act?

The Liability Risk Retention Act (LRRRA) is a federal law that was passed by Congress in 1986 to help U.S. businesses, professionals, and municipalities obtain liability insurance, which had become either unaffordable or unavailable due to the “liability crisis” in the United States.

Is TCCI a Risk Retention Group?

Yes, TCCI is a Risk Retention Group domiciled in the State of Alabama and received its Certificate of Authority on July 26, 2022 and has an NAIC Number of 17351.

What is a Risk Retention Group?

A Risk Retention Group (RRG) is a liability insurance company that is owned by its members. Under the Liability Risk Retention Act (LRRRA), RRGs must be domiciled in a state. Once licensed by its state of domicile, an RRG can insure members in all states. Because the LRRRA is a federal law, it preempts state regulation, making it much easier for RRGs to operate nationally. As insurance companies, RRGs retain risk.

How does the Risk Retention Act work?

In passing the Liability Risk Retention Act, Congress provided insurance buyers with a marketplace solution to the “Liability Crisis,” enabling them to have greater control of their liability insurance programs. To achieve this goal, Congress created — Risk Retention Groups (RRGs).

Who regulates Risk Retention Groups?

Although the Liability Risk Retention Act is a federal law, it has no enforcement mechanism of its own and relies wholly on state insurance departments for its implementation. Risk Retention Groups (RRGs) are regulated in the state in which the RRG is domiciled. The domiciliary state has primary regulatory authority over the entity.

How many Risk Retention Groups and Purchasing Groups are there?

At the end of 2022, there were 242 risk retention groups and 1,031 purchasing groups operating in the United States, according to the Risk Retention Reporter. There are 55 Transportation Risk Retention Groups, making it the second largest of any industry by Business Sector.

How much premium do Risk Retention Groups and Purchasing Groups generate?

According to surveys conducted by the Risk Retention Reporter, RRG annual premium has increased from \$250.2M in 1988 to an estimated \$434.3M at the close of 2021.

What are the Advantages of being insured by TCCI?

TCCI is owned by its members, some of the key advantages offered TCCI to their members relate to the control members obtain over their liability programs. This control often translates into lower rates, broader coverage, effective loss control/risk management programs, participation by TCCI members in favorable loss experience, access to reinsurance markets, and stability of coverage, notwithstanding insurance market cycles.

Is TCCI assessable if it has excessive losses?

No, like many state group self-insurance funds that are assessable, TCCI was designed to be a non-assessable mutual insurance company.

Will TCCI pay a dividend if it is profitable?

Yes, TCCI can pay dividends after the close of the fifth year if it has declared surplus.

Does TCCI have a Sponsoring Association?

Yes, the National Independent Business Alliance (NIBA) is the sponsoring association for TCCI. The NIBA provides several non-insurance benefits, safety, loss control programs and an in-cab camera program for the insureds of TCCI.

Is it Mandatory for all vehicles to have an in-cab camera?

Yes, it is mandatory for all TCCI insured to have an AZUGA camera to assist the NIBA in monitoring its drivers. Other cameras may be acceptable if their data link can be monitored by NIBA.

Does TCCI have Reinsurance?

Yes, TCCI had placed its reinsurance Program through various syndicates of Lloyds of London (A Rated by AM Best). TCCI retains the first \$200,000 of the claim while the reinsurers assume any claims liability in excess of the \$200,000.

What is Reinsurance?

Reinsurance is a form of insurance purchased by insurance companies in order to mitigate risk. Essentially, reinsurance can limit the amount of loss an insurer can potentially suffer. In other words, it protects insurance companies from financial ruin, thereby protecting the companies' customers from uncovered losses. The simple explanation is that reinsurance is insurance for insurance companies. Reinsurance is the mechanism that insurance companies use to lower their risk or reduce their exposure to a specific catastrophic event.

Is TCCI Rated by an Insurance Rating Agency?

Yes, TCCI was issued its Financial Stability Rating of(A) Exceptional on September 21, 2022.

What is Demotech?

Demotech, Inc. is an American insurance rating agency headquartered in Columbus, Ohio, that focuses on independent, regional and specialty companies in the Property and Casualty insurance (P&C) industry.^{[1][2]} It is independent from the companies that it rates.

An Insurance Rating Agency issues financial-strength ratings measuring a companies' ability to immediately pay claims presented.

A Credit Rating Agency issues financial-strength ratings measuring a companies' ability to pay back debt by making timely principal and interest payments and the likelihood of default. Traditional companies such as AM Best, Moody's Investors Service, Standard and Poor's and Fitch Ratings do rate insurance providers, but typically only large national companies.

Demotech was founded in 1985 to provide financial analysis of, and actuarial services for, niche markets ignored by Big Three (credit rating agencies).^{[6][7]} The principals were Joseph and Sharon Romano Petrelli.

The U.S. Securities and Exchange Commission provides a list of Nationally recognized statistical rating organizations on their website. As of August 2022, Demotech was one of ten organizations on that list.

Can a Risk Retention Group participate in the Residual Markets/State Guaranty Funds?

No, this is excluded under the federal law, The Liability Risk Retention Act. There is no protection or participation for the RRGs in the State Guaranty Funds. Every insurance policy issued by a RRG must contain the following notice in 10-point type. NOTICE: This policy is issued by your Risk Retention Group. Your Risk Retention Group may not be subject to all of the insurance laws and regulations of your state. State insurance insolvency guaranty funds are not available for your risk retention group. Federal law gives states the power to require RRG participation in any residual market funds in the state for the lines of coverage written by the RRG. These include auto liability assigned risk pools and JUAs for other liability coverages. A RRG needs to be aware of such possible assessments and provide a means for such a result of their participation in a state's residual market funds.

IS TCCI considered a Surplus Lines Company?

No, Risk Retention Groups are not considered to be a Surplus Lines Company at this time, and it is not clearly stated in the Act if RRGs are to be treated as admitted in non-chartered states. This has an impact on financial responsibility requirements. RRGs will likely take an aggressive stance and consider themselves as an admitted carrier based on the presumption privileges of the Federal Law until states attempt to deny them such status. Most all states acknowledge that RRGs are considered admitted carriers.

Quick Advantages of RRGs

- Avoidance of multiple state filings and licensing requirements.
- Member control over risk and litigation management issues.
- Establishment of stable market for coverage and rates.
- Elimination of market residuals.
- Exemption from countersignature laws for agents and brokers.
- No expense for fronting fees.
- Unbundling of services.

Quick Disadvantages of RRGs

- Risks are limited to liability insurance.
- Not permitted to write outside business.
- No Guaranty fund availability for members.
- May need to Litigate if discriminated against by states and/or Regulators for making it unobtainable to be able to comply with proof of financial responsibility laws.