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The
Risk Retention
Reporter

How USA Risk Group Became The Largest Independent Captive Manager

Featuring Gary Osborne, President, USA Risk Group, Inc.

With 34 RRGs and 222 captives as clients, USA Risk Group is the largest independent captive manager in the world. Gary Osborne, president, cites three keys to the company's success: independence, regulatory expertise, and the capacity to offer clients multiple options.

Osborne joined USA Risk in 1995 as a seasoned captive manager and expert in the various forms of Alternative Risk Transfer. He came to the United States by way of Bermuda after leaving his native Scotland as a 23-year old, newly minted Chartered Accountant. "I was offered jobs in Kenya, Australia, the Bahamas, and Bermuda. I chose Bermuda for the sunshine and easy access to exploring America," he explained.

Osborne's first job was auditing captives at Price Waterhouse. From there, he went to Marsh McLennan, Johnson & Higgins, and Sedgwick where he gained experience working in Vermont and Hawaii. He joined USA Risk in a business development role and rose over the years to president where he presides over the entire USA Risk Group family. His mentor, Lincoln Miller, Jr., group chairman and founder of the company, was a prime mover in enacting the Vermont captive statute and a pioneer in RRG management.

USA Risk had 60 clients in 2002. Today, the company has 255. Most important, once signed on, clients tend to stay with USA Risk. The company's retention rate is 95% over the last 10 years. Unlike the giant insurance/reinsurance brokers, USA Risk has no agenda other than providing clients and prospects with the best advice on how to meet their needs through Alternative Risk Transfer. That's what he means by "independence."

Eight Step Needs Analysis

The company works with each prospect through an eight-step development process to design the best solution for each client. "As independents, we deal with clients owner-to-owner. We're completely free from conflicts of interest, and therefore, remain 100% focused on achieving the best possible results for our clients. Each of our offices has an equity interest in the business," he pointed out.

The eight-step process begins with a "needs analysis" that evaluates exposures, coverage needs, cash flow requirements, and current coverages. The next phase is advice on the viability of various alternative risk programs plus any structuring, financing, management, and regulatory requirements. This is followed up by program design, whether it's a captive or RRG, and advice on the most advantageous onshore or offshore domicile. The process also includes coordination of service providers from USA Risk's long experience working with highly qualified auditors, attorneys, bankers, and other professionals. Depending on the client's needs, USA Risk can negotiate flexible, cost-effective financing, fronting arrangements, excess coverage, and reinsurance placements.

The last three phases of the development process include regulatory compliance, implementation, and administration. "We've earned trust from regulatory authorities that facilitates any required licensing or governmental reviews," said Osborne. The company offers a wide range of implementation services that includes drafting bylaws, legal incorporation, writing policies, selecting experienced administrators, directors and officers, among others. Administrative services include accounting, management and regulatory reporting, tax filing, policy issuance, and coordination of directors and shareholders' meetings.

Gary Osborne
President

Company: USA Risk Group, Inc.

Organizational Structure: Captive Management Company

Education: BA Accounting, Glasgow University; Chartered Accountant of Scotland; Associate in Risk Management (ARM)

Experience: Twenty years of experience in Alternative Risk Transfer market

Greatest Challenge: Integrating systems and mindsets in multiple locations without burdensome corporate management.

Proudest Achievement: Contributing to successful growth over the past eight years by adding onshore and offshore offices and building the client base from 60 to 255.

Company Goal: Build strong market share in Europe from our new Malta base and continue domestic growth to overtake our giant competitors–Marsh, Aon, and Willis–in the captive/RRG arena.

Osborne takes pride in the company's regulatory expertise. A dedicated staff of compliance officers monitors licensing requirements in every state where a USA Risk-managed RRG is domiciled along with registering the RRGs in other states where they do business, plus handling premium tax and municipal tax payments. For an RRG registered in 50 states, USA Risk makes some 650 individual filings in a single year. RRGs, many of which are relatively small with no expertise in insurance regulation, depend on USA Risk to assume this burden and guarantee compliance.

Offering multiple ways to solve a client's insurance needs is a key contributor to the USA Risk success story. "We work with prospects to find the best alternative risk solution. This includes analysis of captive vs. RRG and in the case of captives, just what type of captive is best for the client," said Osborne. The company structures all forms of captives—from single parent to cell captives. The analysis also includes onshore/offshore choices for captives and a detailed cost/benefit analysis of various state domiciles for RRGs.

The company has its roots and corporate headquarters in Vermont, but stays in direct contact with all the active domiciliary states by having regional offices in Hawaii, South Carolina, Delaware, the District of Columbia, Kentucky, and Arizona. Offshore captive operations are overseen by offices in Bermuda, Barbados, Cayman Islands, and British Virgin Islands. "We've also recently opened an office in Malta to extend operations into the EU," Osborne reported. This wide-spread network keeps the company in direct touch with regulators and market conditions wherever their clients do business.

USA Risk acts as an advisor on the basic insurance functions of underwriting, risk management, and claims but generally does not provide these services. Many RRGs are sponsored by managing general agencies (MGA) and managing general underwriters (MGU) experienced in risk selection and loss control. "Claims management is best handled by a third party administrator [TPA], but we have a professional claims executive on staff to assist clients in monitoring and evaluating TPA performance," Osborne noted.

Because clients often depend on reinsurance to strengthen their capital base and provide catastrophe protection, USA Risk owns two reinsurance brokers—USA Risk Brokers, Ltd. to access the Bermuda market and USA Risk Intermediaries, LLC for U.S.-based business. These companies place coverage exclusively for USA Risk clients.

Criteria for Selecting RRG vs. Captive

When approached by an MGA, MGU, or other potential sponsor, what are the criteria for recommending an RRG vs. a captive? Osborne cites five factors that influence the decision:

<u>Policyholder involvement</u>: If the sponsor expects to be involved actively in company management, this weighs in favor of an RRG.

<u>Required Coverages</u>: RRGs can only write liability insurance, and workers compensation is excluded.

<u>Rating requirement</u>: If the company needs a Best's rating, a captive may be the better solution because many startup RRGs are thinly capitalized and require several years of successful performance to qualify.

<u>Market questions</u>: Failures in some markets, notably the warranty business, gave RRGs a bad name in this sector, and some hospitals still refuse to grant privileges to physicians with medical malpractice insurance from RRGs.

<u>Motivation</u>: If the potential sponsor is looking primarily for short-term relief in a hard market and not prepared to stay the course when competition heats up, an RRG is not the best solution. However, sponsors looking for stable, affordable liability insurance over the long-term can benefit from choosing an RRG.

How to Evaluate Captive Managers

What should a potential RRG sponsor look for in evaluating a captive Manager? "Check the manager's software. Can it handle premium tax, Best's reporting, NAIC statements with complete accuracy? How much regulatory experience does the manager have? Look into staff turnover. It's important to have compliance officers with long experience and contacts in the state insurance departments. Is the manager involved in domicile state associations? Can the manager take on a fight on behalf of the client? These are the kinds of questions you should ask a prospective captive Manager," Osborne advised.

Challenges to Successful Operation

What are the principal challenges to successful operation of an RRG?

<u>Capital</u>: You need $2 to $3 million to get started.

<u>Bad year</u>: A big loss early on can drive members away when you go to them for more capital contributions.

<u>Overreaching by state regulators</u>: Some states impose capital requirements and other restrictions that interfere with operations.

<u>Overselling</u>: Some RRGs make the mistake of growing too fast without adequate underwriting and loss control.

<u>Soft Market</u>: Sustaining operations in a soft market against cutthroat competition requires policyholders/shareholders committed to long-term stability.

RRG members and boards can overcome these challenges, according to Osborne, by committing to a long-term business plan based on rigorous underwriting, risk management, and aggressive defense of unfair claims.

"There's no one-size-fits-all solution for sponsors looking for ways to meet their insurance needs outside the traditional carrier markets. At USA Risk, we believe clients are best served by an independent captive manager with unsurpassed regulatory experience and multiple solutions to recommend based on detailed analysis of the client's objectives," Osborne strongly believes.

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