AHT INSURANCE
A BALDWIN RISK PARTNER

CAPTIVES

RISK RETENTION GROUPS (RRGs)

WHAT IS A **CAPTIVE?**

Captive insurance refers to a subsidiary corporation established to provide insurance to the parent company and its affiliates. A captive insurance company represents an option for many organizations, from Fortune 500 companies to nonprofits, that want to take financial control and manage risks by underwriting their own insurance rather than paying premiums to third-party insurers.

A RISK RETENTION GROUP (RRG) is a liability insurance company owned by its members, and is a less common type of captive. RRGs allow businesses with similar insurance needs to pool their risks and form an insurance company that they operate under state regulated guidelines. Using a combination of state and federal laws, RRGs are formed under the auspices of the Federal Liability Risk Retention Act (LRRA). All insureds of an RRG must be owners of the RRG, and all owners of the RRG must be insured.

RRGs are treated differently than other captives because they are allowed to write directly in states where they are registered without obtaining a license. This is part of the reason why RRGs are treated as multi-state insurance companies and are subject to NAIC accreditation standards, albeit modified to suit the unique nature of RRGs.

BENEFITS OF ESTABLISHING A RRG:

Establishing a RRG often provides significant benefits to organizations and risk management professionals. **The advantages of Risk Retention Groups include:**

- Coverage tailored to meet specific needs
- Greater control over claims
- Multi-state operations
- Long-term rate stability
- Potential tax benefits
- Investment income
- Access to the reinsurance market
- Incentive for loss control
- Capture underwriting profit
- Pricing stability
- Funding, underwriting and risk management flexibility

IS A RISK RETENTION GROUP RIGHT FOR YOUR ORGANIZATION?

As organizations of all sizes seek to gain greater control over the costs and opportunities of risk management, captive insurance continues to increase in popularity as an alternative or enhancement to purchasing insurance in the traditional marketplace. Having a RRG gives members more control over risk and litigation management issues while avoiding multiple state filing and licensing requirements. However, when deciding whether to form a RRG, companies need to be able to navigate proof and financial responsibility laws.

The world of captive insurance can be confusing, with so many different structures available, and so many different factors that need to be taken into consideration. Contact the AHT Captive Team to learn if A RRG is right for your organization.