

Risk Purchasing and Risk Retention Groups

Risk purchasing groups are formed under the provisions of the federal Liability Risk Retention Act (LRRRA) of 1986. A purchasing group consists of individuals or firms of like characteristics who share similar insurance needs. The eligibility criteria for members of a purchasing group are set by LRRRA. Once formed and registered with the State of Texas, the group may use its purchasing power to obtain liability insurance and benefits at prices that may be lower than individuals or businesses could negotiate separately.

If a purchasing group buys insurance from a licensed insurer, it may be protected by the Texas Property and Casualty Insurance Guaranty Association if the insurer has capital and surplus of \$25 million or more. If the purchasing group is not protected by the Texas Property and Casualty Insurance Guaranty Association, then it must disclose this to its members.

Policy forms offered to purchasing groups by licensed insurers are currently not required to be filed with TDI. However, the policies must contain the legislatively mandated provisions required to be in policies issued by licensed insurers.

Policy forms offered to purchasing groups by surplus lines insurers are not regulated as to rates or forms and are not protected by the Texas Property and Casualty Insurance Guaranty Association.

Risk Retention Groups also are formed under the provisions of the federal Liability Risk Retention Act (LRRRA) for the purpose of providing insurance. These groups do not buy commercial insurance policies, but “retain” the risk within the group. In effect, the members insure each other against liability claims and lawsuits. However, because a risk retention group is an insurer, it may purchase reinsurance. Reinsurance is a form of insurance that insurance companies buy for their own protection.

The rates and policy forms of risk retention groups are not regulated, and policyholders are not protected by the Texas Property and Casualty Insurance Guaranty Association in the event the risk retention group becomes insolvent.