Comparison of Risk Retention Groups and Purchasing Groups

Issue	Risk Retention Groups	Purchasing Groups
Formation of entity	RRGs form as liability companies which retain risk	PGs are groups of insurance buyers who retain no risk; PGs purchase liability insurance from admitted insurers, surplus lines insurers or RRGs
Homogeneity	Members of RRGs must be engaged in similar businesses or activities that expose them to similar liability exposures	Same for PGs
Type of coverage permitted By LRRA	LRRA provides for third party commercial liability i.e., general liability, product liability, professional liability, etc.; LRRA excludes workers comp, property and personal lines	Same for PGs
Membership requirements	Members of RRGs are owners/insureds	Members of PGs typically have no ownership interest in entity
Capitalization of entity	RRGs are capitalized by member/insureds	PGs require no capitalization by members
Policy issuance	RRGs issue policies to member/insureds	PGs do not issue policies; policies are issued by the PGs insurer
Reinsurance	RRGs typically cede a portion of risk to reinsurers	PGs are typically not concerned with reinsurance
Fictitious Group Laws	States are prohibited from applying fictitious group laws to RRGs	Same for PGs
Countersignature laws	States are prohibited from requiring RRGs to comply with countersignature laws	Same for PGs
Licensing by domiciliary state	RRGs must be licensed under the laws of one state known as their domiciliary or chartering state	PGs must identify their state of domicile but are not licensed
Registration with non-domiciliary states	RRGs must file their plan of operation or feasibility study with all states in which they intend to operate	PGs do not file plans of operation but must register with all states in which they intend to operate, providing specified information to state insurance departments
Use of Agents/Brokers	Some RRGs make direct placements through officers, directors, or full time employees of the RRG while other RRGs use licensed agents and brokers; LRRA prohibits discrimination against nonresident agents/brokers	LRRA permits states to require use of licensed agents and brokers but prohibits discrimination against nonresidents. Most states issue nonresident surplus lines licenses (or the equivalent) for placement of coverage in PGs insured by surplus lines insurers
Guaranty Fund Protection	RRGs do not participate in state guaranty funds. Most states require that RRGs place a notice on their policies in 10 point type advising policyholders of this fact	Where a PG is insured by an insurer admitted in the state guaranty fund projections are typically the same as for non-PG situations. Many states require nonadmitted insurers of PGs to place a notice on the policy in 10 point type advising that guaranty fund protection is not available
Payment of Premium Tax	States can require RRGs to pay premium tax on risks written in the state at either the admitted carrier rate or the surplus lines rate	States can require payment of premium tax on risks written in the state at either the admitted carrier rate or the surplus lines rate
Discrimination	States are prohibited from discriminating against RRGs	Same for PGs
Name of Entity	LRRA requires all RRGs to incorporate the words “Risk Retention Group” in name their name	There is no legal requirement for PGs to use words “Purchasing Group” in name their name