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The Risk Retention Reporter

CHI RRG 32 Years On

In the 1980s, the California Healthcare professional liability marketplace was dominated by a single carrier, **Farmers**. That monopoly, coupled with an historic hard market for liability lines of coverage, left many independent hospitals with few options outside of paying the high premiums offered.

To address the crisis **Congress** passed the *Liability Risk Retention Act* (LRRA) of 1986. Then, in 1988, nine independent California hospitals came together to form **California Healthcare Insurance Co. Inc., A Risk Retention Group** (CHI).

"I've been around from the beginning, back when the industry and everybody surrounding it, other than the nine hospitals that formed the RRG, were naysayers," said CHI President Diane Abbett. "'This isn't going to last. How can you compete?''

Farmers dropped medical malpractice coverage in 2003, during the hard market of the mid-2000s, after experiencing "significant underwriting losses." CHI, in its 32nd year of operation, is the longest continually operating hospital professional liability carrier in California.

Many other Healthcare RRGs in operation for over 30 years focus on physician specialties, such as **Ophthalmic Mutual Insurance Co. RRG** which serves ophthalmologists, or **Preferred Physicians Medical RRG, a Mutual Insurance Company**, which serves anesthesiologists.

CHI operates more as a generalist, with an initial focus on independent hospitals in California; CHI has since branched out to provide coverage to independent hospitals in other western states including Alaska, Nevada, and Oregon. In 2018, CHI began offering professional liability coverage to dentists in Washington State. As with many other successful RRGs, the foundation of CHI's success is a dedicated membership.

"They understood that when you are part of an RRG, there is transparency. The members are the ownership and are engaged in the management of the risk retention group," said Abbett. "When all those things come together, the education, the risk management, and the claims management, it works really well. It is a hand-in-hand relationship, not an adversarial one."

In 1997, the CHI formed its own management and brokerage company **Optima Healthcare Insurance Services, Inc.** Optima brokers coverages not available through the RRG, such as property or excess liability, to CHI members. The commission dollars Optima generates are then used to offset expenses at Optima, such as the salaries of claims employees. In 2007, CHI launched a premium rebate program that returned more than $45 million in rebates to the CHI membership.

Although risk retention groups were initially envisioned as a response to the historic hard market of the 1980s, the continued success of groups such CHI shows that many RRGs have evolved beyond a tool for the membership to deal with a hard market. The dedicated memberships of the most successful RRGs allow for a consistent underwriting philosophy, regardless of greater market conditions.

"Our approach to underwriting and doing business has not changed throughout the history of the company. We base our premium, our individual owners' premium on their own loss history," said Abbett. "If the market is soft, you can likely get pricing that is cheaper outside of this organization. But if you have a long term approach and the thought process that I understand that I need to pay for my own losses, you can get service beyond what you would get with most national carriers."

When the market hardens, as had it begun to in 2019, the RRG membership receives the benefit of rates that may be lower than rates at traditional carriers. The smaller size of RRGs also allows the entity to quickly meet needs of its membership.

During the height of the coronavirus pandemic, CHI was able to quickly issue an endorsement to cover any medical workers its member hospitals needed to call in, such as retirees. "And that's the beauty of a risk retention group, we could do that immediately," said Abbett.

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