

Guest Editorial

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The Dangerous Combination of Greed and Stupidity

by Michael Maglaras

The recent demise of the Reciprocal of America and its affiliated companies has left many physicians and hospitals with no insurance coverage for current claims, prior acts, and tail liabilities. ROA's demise could have been predicted. We heard the freight train coming long before we saw it. When insurers go south, they always do so for the same reasons. Of particular importance for all of us in the industry is how an insurer -- essentially a group captive by another name -- goes bad. The reasons are clear, unequivocal, and, as we have said, always the same. Here's the list.

The Old Boy Network

Nothing will sink a group captive faster than the hiring of friends, relations, and other assorted under-credentialed and overpaid advisors. The ROA looked like a roadshow version of the movie "In the Heat of the Night." Everybody knew everybody else...or was related to somebody...or was in the sack with somebody. When you diagram the interrelatedness of the directors and senior management of the ROA entities, it was as if they all shared the same DNA.

Greed, Greed, and More Greed

Fat and long-term contracts for services entered into without regard for competitive bidding, and with little regard for conflicts of interest. Big cars, big boats, club memberships -- all are the stuff that will make a group captive drop out of sight like a rock in a pond. Show us a group insurance arrangement with fat deals for the senior management, and we'll show you an accident waiting to happen.

A Somnolent Board of Directors

When group captives sink under the weight of their own claims experience and expense ratio, it is because of one of only two possible reasons: either the board of directors were compliant, or they were asleep. Those are the only two reasons.

Sweet Talking Reinsurers

Whether it's with General Re (who should have known better in the ROA scandal) or with any other reinsurer, captives should play it straight with their reinsurers. When you lie, deceive, prevaricate, and just plain hide the truth from your risk-bearing partners, you do a disservice to the industry. Why did the ROA need five (yes, that's



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right...five) offshore reinsurers - all named sequentially and rather ill-advisedly "First, Second, Third, Fourth, and Fifth Virginia Re" standing between them and their commercial reinsurance placements?

In Summary

When large multi-state group captive arrangements go down, they put people out of work, force understaffed insurance departments and tax payers to foot the bill, and, most importantly, leave their insureds exposed to the loss of their assets. ROA's death could have been foretold, could have been prevented, ought never to have happened. We need to learn from these lessons.

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