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The
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Reporter

Hands-on Board Spells Success For Trucking RRG

Featuring Patrick Ferrell, Senior Vice President
Elite Transportation Risk Retention Group, Inc.

How to run an insurance company with no outside manager or paid staff and declare a dividend in the first five years? Elite Transportation Risk Retention Group (ETRRG) did it by keeping every decision in the hands of the Board of Directors, according to Patrick Ferrell, senior vice president. Many RRGs turn operations over to captive managers while their Boards establish policy and monitor performance, but take no part in running their companies.

KCI Insurance, a New Jersey-based agency that specializes in trucking insurance, and a small group of Pennsylvania trucking companies formed ETRRG in 2005. KCI provides other lines of insurance to its trucker clients, but was having difficulty placing auto liability in the conventional insurance markets. As a senior executive of the agency with more than 30 years experience on the company side, Ferrell knew the volatility of traditional carriers. He needed a reliable way to assure his trucking clients of coverage they could depend on year in and year out. Working with a small group of trucking companies that had a history of low losses, KCI launched ETRRG. From the beginning, the five-member Board made all the decisions.

Ferrell joined KCI after 10 years with AIG where he ran the Mid-Atlantic and Southeast Transportation Divisions. With this experience behind him, Ferrell was ideally suited to partner with the trucking companies. Together, they were determined to succeed by keeping tight control over truckers selected to join the RRG. The Board is composed of four trucking company executives and one member drawn, as required from Arizona, where ETRRG is domiciled. The RRG has no paid employees. Ferrell is delegated by his employer, KCI Insurance, to advise and support ETRRG.

Board Selects Members

How does the company do business? Underwriting is handled directly by the Board. "I prepare full submissions just as I did at AIG. It's their decision to accept or reject," Ferrell explained. The result is a small membership – only 18 trucking companies – selected on the basis of their safe, efficient operations. The Board is well qualified to judge prospects. One Board member is an owner with a strong financial background, one is a trucking company controller, another is a chief operating officer. They examine all aspects of a prospective member's operation from the training and experience of the drivers to the physical condition of the prospect's fleet. "Trucks weighing some 80,000 pounds and costing anywhere from $75,000 to $150,000 for the tractor plus $10,000 to $20,000 for the trailer; and carrying cargo often valued at $200,000 speed down the highway at between 55 and 75 miles an hour," Ferrell points out. "It's a risky business, so our Board is highly selective in taking on new members."

The board also closely oversees risk management through its Loss Control Committee. The Committee reviews reports from loss control specialists who visit each company once or twice a year. The Board follows up to be sure recommendations are acted upon. Result: an average pure loss ratio of 20 percent over five years on

Patrick Ferrell
Senior Vice President

Company: Elite Transportation Risk Retention Group, Inc.

Business: Liability insurance for trucking companies

Organization: A stock insurance company owned by policyholders

Experience: Over 30 years at traditional insurance companies with more than 10 years specializing in transportation and five years concentrating on the trucking industry

Education: B.A. in History, Virginia Commonwealth University.

Proudest Achievement: Reducing ETRRG's loss ratio between 10 and 15 percent annually since the company wrote its first policy in 2005.

Greatest Challenge: In the beginning, it was convincing reinsurers to sign on to an unknown company in the trucking industry. Today, the challenge is to maintain discipline in underwriting, loss control, and claims.

nearly $25 million of premium. "In the beginning, some of our carriers had losses in the 50 to 60 percent range. Through the Board's hands-on risk management, these companies got their losses down to between 20 and 25 percent," Ferrell noted.

Low Operating Costs

ETRRG also has low operating costs. Outside expenses are kept down by the Board's active role in underwriting and risk management. Elite's claims operation also gives the company a competitive advantage. Claims are managed by a team at Risk Enterprise Management, Ltd., that for many years has specialized exclusively on trucking, with the result that claims costs are between 20 and 25 percent lower than at other companies. USA Risk Group West handles regulatory compliance in Arizona and prepares registration filings in other states where ETRRG members operate.

Through the combination of low overhead and its enviable, low loss ratio, ETRRG earned enough to pay its trucker-shareholders a dividend of $150,000 in 2009. "We expect to pay our shareholders $600,000 in dividends in 2010," Ferrell proudly predicts. The average member has a fleet of 75 trucks with an average auto liability premium of $4,000 per truck or $300,000 for the account. Add in the property/casualty lines and the average total premium per account jumps to $500,000.

From its earliest days, the RRG limited its risk through prudent use of reinsurance. ETRRG offers members minimum limits of $1 million up to $5 million. The RRG retains $250,000 under both and cedes the remainder to reinsurers. Some 60 percent of policyholders take limits in excess of $1 million. Common large losses are in the range of $500,000 – typically caused by a rear end collision in which the big rig was unable to stop in time. Favorable loss experience has enabled ETRRG to reduce reinsurance expense between five and 10 percent each year. "We're pleased to pass this along to our members," said Ferrell.

KCI joined in starting ETRRG as a means to offer its customers a total package. Liability insurance is considered the most important line for trucking companies, along with workers compensation. The agency also places liability insurance with traditional carriers but has found that many clients prefer the assurance of coverage when you need it that goes along with owning the company. KCI receives a discounted commission for business placed with the RRG but has the advantage of knowing that a reliable company is available to take well-qualified truckers when the traditional carriers back away from the auto liability line.

Why Some Trucking RRGs Folded

In recent years, some trucking RRGs folded. Why? "The economy played a major role. Trucking companies have thin margins and some failed. Some others bailed out of RRGs when the market softened and the competition lured them away with low ball prices," Ferrell explained. "Unless you involve your members strongly in the RRG, you can get in trouble. We haven't lost a single member since Elite opened its doors in 2005."

Asked his advice to RRG boards and managers on how to survive and compete in the aftermath of the economic crisis, Ferrell advises, "competitive rates, services, innovation, and above all, member involvement." As for ETRRG, Ferrell's goals for the next three to five years are "to continue slowly and surely to increase members at the rate of one or two each year up to 25 or 30 with premium growing to between $7 and $10 million with a steady reduction in the loss and expense ratio."

How does ETRRG stand up against competition from traditional carriers? Ferrell attested to these advantages: "Most traditional carriers don't offer the rigorous loss control and claims management services that we provide. At the same time, our premiums are competitive – not always the lowest, but competitive. And we have the big advantage of profitability that will enable us to offer our members dividends equal to 20 percent of premium." Ferrell is proud of the company's specialized risk management and loss control services because Elite doesn't just offer insurance coverage, it reduces its members' exposure to loss and helps to improve their operations.

What about growth? "Our members are more interested in bottom line profit than top line growth," Ferrell said. "We just wrote a new account in New Jersey, and we're looking at Ohio and the Mid-Atlantic, from Connecticut and New York to the Carolinas, but we're not aggressively seeking new business." New members come primarily from referrals. Prospects have to show they have a track record of low losses and efficient operation to qualify. ETRRG is somewhat like an exclusive club. You have to have the credentials to get in. That's why it's called the *Elite Transportation Risk Retention Group*.

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