
The

Risk Retention Reporter

In-House Management vs. External Administration Lessons from a Pro

Featuring Sanford "Sandy" Elsass, President & CEO, Uni-Ter Underwriting Management Corporation

If you're the CEO of a startup or a young RRG, or even a mature company reviewing your operation, there's much to learn from a professional manager who created and administers RRGs that provide liability insurance in the healthcare field. Our CEO of the Month for August is Sanford "Sandy" Elsass, President of Uni-Ter Underwriting Management Corporation. He built five RRGs in the last seven years, merged two into a company now operating in 47 states, and took on the challenge of writing medical malpractice insurance in the toughest state of all – New York.

The Uni-Ter staff is composed of senior underwriters for each of the four RRGs under management; a risk management division composed of clinical nurses and loss control specialists who work directly with insured facilities, doctors, and nurses; a claims division made up of attorneys recognized for their success in defending against unfair claims; and administrators who keep a constant eye on the operation of each RRG. Uni-Ter manages to be sure profit objectives are being met and to identify potential problems. Elsass is not a micro-manager, but he oversees the operation with the experience of 30 years as a hard driving entrepreneur in the insurance business.

Elsass was instrumental in launching Florida's Ponce de Leon LTC RRG, Inc. in 2002. It was the first RRG in the nation to provide general and professional liability insurance to long-term care facilities. Next, he worked with agents and facilities in the Northeast to create Henry Hudson LTC RRG, Inc. Hudson was later merged into Lewis & Clark LTC RRG, Inc., which Elsass built with industry leaders in the Pacific Northwest. Lewis & Clark now operates nationally. From there, he went on to found Sophia Palmer Nurses Risk Retention Group, Inc. and perhaps his most challenging achievement to date, J. M. Woodworth RRG, Inc., provider of medical malpractice insurance to physicians/surgeons in New York, Connecticut, Massachusetts, Pennsylvania, and New Jersey.

Here are lessons he learned along with some guidelines for RRG CEOs to think about when selecting and evaluating a management company's performance:

Why Outsource?

Elsass says it's a matter of cost – especially for an RRG in the early stage of development. "The expense ratio for all the RRGs we manage is less than 30 percent including broker commissions. Also, we provide our RRGs with a broader base of talent because we have a professional staff with a level of expertise and experience that would be difficult for a single RRG to attract," says Elsass.

Is outsourcing cost-effective given management fees, or is there a point in the growth curve when an RRG can operate as efficiently with its own staff at lower cost? "Probably," Elsass acknowledges, "but if a management company drives the RRG's costs down and profits up, why change course given the headaches that go with running the company in-house."

Sanford "Sandy" Elsass President & CEO

RRG Management Company: Uni-Ter Underwriting Management Corporation

Organizational Structure: Subsidiary of U.S. RE Companies, Inc.

Management Specialty: Building and administering RRGs in the healthcare field

Education: Graduate of Ohio University

Experience: Thirty years in insurance

Board Memberships: National Risk Retention Association, Nevada Captive Insurance Association, Sunshine State Insurance Company

Proudest Achievement: Building an innovative, professional staff that took four Risk Retention Groups from startups to profitable businesses in five years

Greatest Challenge: Managing for profitability in a soft market

Board Relations and Governance

A relationship of trust and mutual respect between the Board and the management company is essential. "Our business model has been to bring the RRG founders onto the Boards and as business grows expand Board membership to achieve diversity and geographic spread. The Board and the Uni-Ter team build a relationship. Board members teach us their business. We teach them the insurance business," Elsass explains.

"Our interests are aligned so the most important question Board members ask is – are the costs of risk transfer and retention going down and the value of the stock going up at the same time? If the answer consistently is yes, you won't have a problem maintaining Board support," according to Elsass. Most important is to achieve a common understanding of the mission and goals.

The Boards of RRGs managed by Uni-Ter meet between three and five times a year, sometimes by phone. Agendas are sent out in advance. Meetings are structured to bring all pertinent issues before the Board. There is complete transparency. At the same time, Elsass believes in cultivating a collegial atmosphere in which Board members get to know each other informally. Most meetings begin with a relaxed dinner the night before where Board members can discuss anything that's on their minds. The business meeting is held the next morning, followed by golf in the afternoon. *[Ed. note: Elsass discusses his views about board governance in the RRG Boards' Best Practices feature article published in the July 2008 issue of RRR]*

Profit Motive – Management Fees

"As underwriting manager, the first thing we do is commit to making a profit; but we believe in getting rich slowly, so we hoard cash to be prepared for unforeseen claims that sometimes result from the long-tail nature of our business. RRGs want profit and stability. So far, we've delivered. It's a win-win situation for Uni-Ter because the Company also shares in the RRG's results through a formula that rewards performance. The RRG should base fees on a requirement that all costs, including losses and loss adjustment expenses, be kept under 100 percent," Elsass declares. He's proud of the fact that in five years, the stock value of the first two RRGs managed by Uni-Ter has more than doubled.

Selecting a Manager – Tough Questions

"Don't be afraid to ask tough questions," he advises. Before selecting a manager, the RRG should independently check with other RRGs managed by the group. Look for a management company that has launched and managed successful RRGs and kept costs down. Be sure the company has depth of management and broad skill

sets. Check the prospective manager's reputation with regulators, legislators, and influential business partners.

Potential Conflicts – Are They Real?

Is there a possible conflict of interest for a management company that is owned by a large corporation involved in other sectors of the insurance business? Elsass says no. Uni-Ter is owned by U.S. RE Companies, Inc., an international financial services and reinsurance brokerage firm. He maintains that through its parent, Uni-Ter has access to a wide range of services including essential reinsurance and analytics along with experts who have decades of experience in solving insurance problems.

Political / Regulatory / Legislative Issues

Under the federal Liability Risk Retention Act (LRRRA), Risk Retention Groups licensed in a single state are authorized to operate in all other states. The National Risk Retention Association (NRRRA) has contended that the National Association of Insurance Commissioners (NAIC) and some state regulators are encroaching upon operation of RRGs by improper assessment of fees; impermissible requests for information; and making operation in a state contingent on regulatory review and approval. Are these charges valid? Elsass cites some "horror stories" of infringement, but he advocates a constructive dialogue between NRRRA and NAIC. At the same time, NRRRA is building a coalition of RRGs to create a defense fund that will help achieve this desired outcome."

Elsass – Professional Insurance Man

Elsass began his career in fund raising after graduating from Ohio University. After a few short years, he decided to seek opportunities in the business world. One evening at a dinner party he met an industrial psychologist who was hired to find a strong salesman to run an insurance agency. The man he met at dinner took a chance on the eager, young Elsass. He's been in just about every aspect of insurance ever since – from buying, managing, and selling a national agency, to reinsurance, to investment banking. In his free time, Elsass is a low-handicap golfer. His wife, Abigail, keeps him challenged. She played for a few years on the Ladies Professional Golf Association (LPGA) tour. Elsass is proud of his two daughters, Logan who's in publishing in New York, and Chloe, a college student in Virginia. Elsass also believes strongly in civic activity – having served on the Board of his alma mater, Ohio University; Zoo New England and the City Center for the Performing Arts in Boston.

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