4. (3 points)

A hospital is considering purchasing its liability insurance coverage either from a private insurer or by joining a risk retention group (RRG).

a. (1.5 points)

Describe three advantages of purchasing insurance coverage from a private insurer as opposed to an RRG.

b. (1.5 points)

Describe three advantages of purchasing insurance coverage from an RRG as opposed to a private insurer.

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QUESTION 4	
TOTAL POINT VALUE: 3.0	**LEARNING OBJECTIVE: A3**
SAMPLE ANSWERS	
Part a: 1.5 points	
• Private insurer can offer property coverage in addition to liability; RRG can only offer liability coverage • Private insurers are covered by guaranty funds which provide additional protection in case of insolvency; RRGs are not • Private insurers allow for risk transfer; RRGs offer risk pooling (with potential for adverse experience) • Private insurers more likely to have a financial rating, allowing the hospital to more easily assess financial strength; RRGs less likely to have a financial rating	
Part b: 1.5 points	
• RRGs can offer cheaper premiums because they do not have commissions/marketing expenses/profit loads like private insurers do • RRGs only insure specific types of risks, therefore they can provide coverage tailored to the hospital's specific insurance needs • RRG would insure other hospitals, who could learn risk management best practices from each other due to specialization and joint ownership incentives • RRG owned by insured hospitals and therefore provides greater incentive than private insurance to implement strong risk controls, which could reduce cost of insurance • RRGs were formed to increase the availability of insurance and are less subject to the insurance rate cycle than private insurers, also providing more stable pricing • RRGs are not covered by guaranty funds and therefore have stronger incentive than private insurers to establish adequate reserves • RRGs only have to be licensed in their home state and registered in other states where they are providing insurance; private insurers need to be licensed in each state where they provide coverage	
EXAMINER'S REPORT BY PART	
Candidates were expected to know general facts about RRGs and to be able to compare the advantages and disadvantages of RRGs to private insurers.	
Part a	
Candidates were expected to know the cons of insuring through an RRG versus a private insurer (or alternatively, the pros of insuring through a private insurer versus an RRG). The most common error was listing advantages without providing sound rationale for advantages, such as the following statements: • RRG not eligible for guaranty fund • It can benefit from guaranty fund • Property coverage not available/prominent (RRGs are liability coverage) • Private insurer likely has more coverage offerings available (larger company) • By paying a premium, risk is transferred to the insurance company	

Part b
Candidates were expected to know the pros of insuring through an RRG versus a private insurer (or alternatively, the cons of insuring through a private insurer versus an RRG). Common errors included References to lower premiums from RRGs without providing rationale. Another common error was stating that RRGs insure similar risks without explaining why it is a benefit (hospitals can share risk management best practices, RRG specializes in hospital claims, etc.).