

BUYERS REPORT

■ Alternative Markets

Nursing Home RRGs Get Rating Relief

HUD accepts new rating service seal of approval for loan guarantee program

BY KAREN CUTTS

BEFORE JAN. 1 OF THIS YEAR, none of the 24 risk retention groups formed in the last three years to provide professional liability coverage to nursing home owners and operators were eligible for the U.S. Department of Housing and Urban Development's Section 232 program, which provides HUD-guaranteed loans for construction or rehabilitation of long term care facilities.

This was because of HUD's requirement that professional liability coverage had to be obtained from a carrier rated "B-double-plus" or better by A.M. Best. Since Best typically requires five years of operation before assigning a letter rating, none of the RRGs could meet the requirement.

Effective Jan. 1, however, HUD approved Demotech Inc.—an Ohio-based rating service that focuses on smaller insurers—as a rating service for RRGs. Since that time, RRGs that are assigned a financial stability rating of "A" (Exceptional) by Demotech can participate in the Section 232 program, under which HUD guarantees loans in the event of a default.

Demotech recently assigned four nursing home RRGs an "A" rating, making the insureds of these RRGs eligible for the HUD Section 232 program.



“Demotech takes a holistic approach to the RRG rating process, obtaining information on the major functional areas, with financial analysis only part of an entire package.” —Karen Cutts

The first RRG to be assigned the Demotech "A" rating was District of Columbia-domiciled Healthcare Industry Liability Reciprocal Company, HealthCap RRG.

HealthCap, formed in 2003, insures more than 500 for-profit and not-for-profit nursing homes and assisted living facilities in 15 states. In 2004, it generated gross written premium of \$21.2 million.

Two RRGs managed by The Uni-Ter Group of Atlanta—Florida-domiciled Ponce De Leon LTC RRG Inc. and Nevada-domiciled Lewis & Clark LTC RRG—were the next RRGs to receive

an "A" Demotech rating.

Uni-Ter provides a full range of services to the RRGs, including underwriting, risk management and claims services.

While there is no seasoning requirement for an RRG seeking a Demotech financial stability rating, the firm's president, Joe Petrelli, said the

RRG should have at least one year of independent audited actuarial reports.

Demotech takes a holistic approach to the rating process, obtaining information on the major functional areas—including risk management, loss control, claims, underwriting, pricing and investment guidelines—with financial analysis only part of an entire package. ■

► **Karen Cutts** is editor and publisher of the "Risk Retention Reporter" in Pasadena, Calif. Visit www.rrr.com for information on risk retention groups and purchasing groups.