
The

Risk Retention Reporter

Underwriting Immersion Cornerstone to Success

*Featuring Steve Crim, President & CEO
American Safety Risk Retention Group, Inc.*

For Steve Crim, CEO of American Safety Risk Retention Group, Inc. (ASRRG), as well as four other related insurance companies under the American Safety Group of Companies, quality underwriting and creative use of alternative risk options is the key to American Safety's success. It has to be when your RRG insures perceived high risk environmental exposures: asbestos abatement, environmental remediation, hazardous waste facilities consulting, and other environmental risks. ASRRG offers asbestos, lead, pollution, underground tank removal, hazardous waste remediation, general liability, and professional liability coverages.

These exposures have been the bane of the commercial market for more than 20 years. For ASRRG to succeed where commercial insurers have not, it needs to understand its risks much more thoroughly than traditional insurers do. This is where ASRRG and its sister companies have excelled through effective underwriting and loss control.

From Underwriting Roots Grows an Underwriting Appreciation

Crim began his career as a commercial casualty underwriter with the Aetna C&S and later The Hartford, underwriting all forms of casualty risk. His Indianapolis office focused on construction and contractors. This was a time when he fondly remembers insurers investing much in educating and developing talent. Unfortunately, the mid-1980s was probably the last time insurers invested so heavily in training people. Shortly thereafter, insurers cut back on in-depth training because their talent was being raided by brokers and other insurers who relied on large companies to do the training before hiring them away for a few dollars more. Improving short-term profits seemed to take greater precedence over people for commercial insurers — a short-sighted approach from his perspective. It also was a lesson he learned when he ran his own insurance company.

After five years with a commercial insurer, Crim was recruited by ASRRG's founder, Lloyd Fox, to become the RRG's first full-time in-house program manager. Fox, an attorney, had assisted hazardous waste contractors in forming a Bermuda captive in 1986 and two years later assisted in the formation of ASRRG in Vermont, establishing headquarters for the companies in Atlanta,

Georgia, where Crim began his career with the American Safety Group of Companies. By bringing underwriting and other services in-house instead of relying on their captive manager and broker, the RRG members believed that they could capitalize on the strengths of the two insurers, achieving long-term success and robust growth based on top-notch environmental underwriting and loss control. Furthermore, the owners believed the two insurers needed to focus on niche businesses and avoid competition from the major insurers, determining that smaller risks, well located geographically, were best.

Applying Underwriting Lessons

Once in-house, Crim knew that to be an effective underwriter, he had to develop an in-depth understanding of the environmental business. Just reading about it would not suffice. He took training courses in environmental remediation at Georgia Tech to broaden his technical knowledge. He also leveraged the

Stephen R. Crim, President and CEO

RRG: American Safety Risk Retention Group, Inc., a non-subsiary affiliate of American Safety Insurance Holdings, Ltd.

RRG members/insureds: Environmental contractors, consultants and property owners with environmental exposures

Organizational Structure: Stock company owned by its members

Education: B.A. Mathematics, University of Indiana (1986)

Associations: Former Chairman of the National Risk Retention Association

Proudest Achievement: Obtaining and maintaining an A.M. Best rating of "A" for over ten years.

Greatest challenge: Overcoming the negative stigma of RRGs held by many state regulators.

In his words: Be creative and willing to look at alternative ways to accomplish things. Seek strategic partners for non-RRG lines like workers compensation for solutions for shareholders.

technical expertise and knowledge of the ASRRG board, enabling him to underwrite more thoroughly and effectively. It has also been the cornerstone approach for all his underwriters.

From its inception, ASRRG developed a platform for underwriting success, enabling the company to grow from its modest 16 policies and \$4 million in capital in 1990, to \$230 million today with over 10,000 insureds, in the RRG and the other related insurance companies established by American Safety.

Today, Crim serves as president and CEO of American Safety Insurance Holdings, Ltd. ASI, (NYSE:ASI), a Bermuda holding company comprised of several companies, including those outside the U.S. — American Safety Reinsurance, Ltd. and American Safety Assurance, Ltd. — and those in the U.S. — American Safety Insurance Services, Inc., American Safety Casualty Insurance Company, American Safety Indemnity Company, and American Safety Risk Retention Group, Inc. As a group, ASI's insurance subsidiaries and affiliates are rated "A" (Excellent) VIII by A.M. Best.

Knowing When to Retain vs. Transfer Risk

Being an effective underwriter also requires more than just knowing what risk to assume and at what price; it includes knowing when to transfer risk via buying reinsurance. It also means knowing when to supplement the RRG format with other supplemental insurance products such as supplying surety bonds, using an admitted carrier instead of directly writing with the RRG, or when to use standard versus excess lines coverages. These needs led American Safety to set up several insurers and develop relationships with commercial insurers to supplement and complement the basic RRG model.

ASRRG focuses on smaller companies, unique product niches, and specific geographic areas. This specialization allows ASRRG to identify the environmental exposures that offer the best opportunities to make underwriting profits. In essence, ASRRG insures the risks it understands the best.

Knowing When to Hold 'Em — Knowing When to Fold 'Em

In line with this, Crim believes there are three things each RRG CEO should be well versed in to be successful.

Establish underwriting expertise and discipline.

It is vital to understand the risks being underwritten. That requires underwriting staff to have insurance knowledge coupled with technical knowledge of the risks themselves, maintaining underwriting discipline in both hard and soft market cycles.

Effectively manage the capital and surplus.

The CEO has a fiduciary responsibility to its shareholders, so it is important to protect the company's capital and surplus. Knowing how to effectively leverage

reinsurance to protect capital and surplus is an important skill, especially during market cycles. Also, sometimes accessing the equity market might be ideal, which is what American Safety did when it went public to raise additional capital for its insurance operations.

Have a good relationship with your actuaries.

Understanding the long-tail nature of your company's risk is critical, and the actuary is the key player in this regard. The actuary understands how claims develop and does the modeling that minimizes long term volatility in results.

Despite Risk Profile, Competition Returns

Despite the appearance of immunity to commercial insurers, Crim says that commercial competition has returned. Last year, ASRRG lost 9% in premium to the commercial market. However, Crim believes that declining to write this business was a prudent business decision, since matching commercial insurers soft market competitive pricing would have a long-term negative impact on American Safety's capital and surplus and be detrimental to the shareholders. It was better to lose this business today, knowing that it will return once the commercial market again abandons environmental risks.

Crim's Proudest Achievements

In his 20 years at ASRRG, Crim rates his proudest achievements as:

- *Obtaining and maintaining an "A" rating from A.M. Best for more than 10 years. This rating has been critical in dealing with skeptical regulators, customers, reinsurers and commercial insurers.*
- *Making American Safety a success for over 20 years in both hard and soft markets, and being able to provide affordable coverage for environmental risks.*
- *Addressing the negative opinion held by many state regulators about RRGs during his tenure as chairman of the National Risk Retention Association.*
- *Developing creative underwriting and establishing additional insurers, including a surplus lines carrier and admitted company, to meet the needs of RRG insureds and deal with regulatory challenges.*

Crim believes that the secret of his success is effective underwriting — from evaluating individual risks to creative use of alternative insurance vehicles. These are keys to profits and long-term protection of capital and surplus which have enabled him to fulfill his fiduciary responsibilities to shareholders.

*Reprinted from the May 2008 Risk Retention Reporter —
Volume 22, Number 5*