



LOUISIANA
DEPARTMENT OF
INSURANCE

Understanding Reciprocal Insurance Exchanges

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What is a reciprocal?

A reciprocal, or reciprocal insurance exchange, is a type of insurance structure in which a group of policyholders pool their money together and contract to cover losses experienced by members of the group. These policyholders, called subscribers, own the reciprocal. However, it is managed by a third party who has Power of Attorney for the reciprocal.

Reciprocals are protected by the the Louisiana Insurance Guaranty Association (LIGA), which would pay claims and refund unearned premiums for policyholders if that reciprocal were to become insolvent.

Reciprocals are treated the same as other insurers by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. Being insured by a reciprocal does not affect one's mortgage.

Ownership and management

Subscribers, who own the reciprocal, select a board of advisors that appoints a third party to

operate the exchange's day-to-day activities. The third party is an individual or entity that is granted Power of Attorney to manage the group's daily operations such as issuing policies, filing rates, managing investments and handling claims.

Reciprocals versus mutual insurance companies

- **OWNERSHIP** — Both reciprocals and mutual insurance companies are owned by policyholders and provide collective self-insurance to members.
- **RISK DISTRIBUTION** — Reciprocals distribute risk to subscribers while mutual insurers distribute risk to the organization.
- **GOVERNANCE** — In a mutual insurance company, policyholders elect a board of directors to govern the company alongside managers chosen by the board. Reciprocal subscribers choose a board of governors, and that board chooses a third-party individual or entity to manage the company on behalf of the subscribers via a Power of Attorney.

BENEFITS of a reciprocal

Enrolling in a reciprocal allows policyholders to own a portion of the company that insures them. This means **premiums may be kept low** as member contributions accumulate to offset operating costs.

Price increases may also occur less frequently than with a more traditional insurance company model.

Subscribers may benefit from shared profits and earned dividends if the group experiences fewer losses.

DISADVANTAGES of a reciprocal

A reciprocal **may charge a percentage of the annual premium as a subscriber fee**. Subscribers who cancel their policies midterm will receive smaller refunds than those provided by traditional insurance companies.

One of the biggest drawbacks of being a subscriber to a reciprocal is the **potential difficulty to generate the necessary funds to offset costs**. Subscribers enrolled in smaller reciprocals could experience bigger impacts from insurance claims, but more established reciprocals are not likely to feel the brunt of such losses.

A reciprocal's total net worth depends on the number of subscribers it has. Newer **reciprocals with fewer members may not be able to support coverage needs**. Having more subscribers means the risk is distributed more broadly.

Assessment and reciprocals

Most reciprocals issue nonassessable policies, which means subscribers will not pay more in insurance premiums if operating costs rise higher than expected.

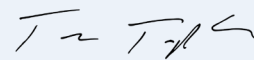
However, some reciprocals do issue assessable policies. Consumers should research whether a proposed policy is assessable before purchasing it.

The Louisiana Department of Insurance is tasked with balancing the needs of insurance consumers with the insurance industry's need to operate competitively. The LDI works diligently to protect the interest of policyholders while promoting a flourishing insurance market that benefits all residents and businesses in the great state of Louisiana. It is our mission to make sure insurance is available, affordable and accountable in Louisiana, and every action I take as Commissioner is targeted at achieving those goals.

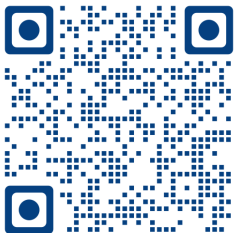
As part of that mission, the LDI creates publications to provide consumers, the insurance industry, and other stakeholders with educational information about insurance-related matters in Louisiana.

I hope you find this publication informative, and I encourage you to contact us with questions or concerns at 1-800-259-5300 or ldi.la.gov.

Sincerely,



Tim Temple
Commissioner
of Insurance



HAVE QUESTIONS? Contact us:

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