



Program Business Discussion Casualty Actuarial Society (CAS)



Steven K. Dresner

Senior Vice President

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The Program World is Very Large!



What is the Size of The Program Market?

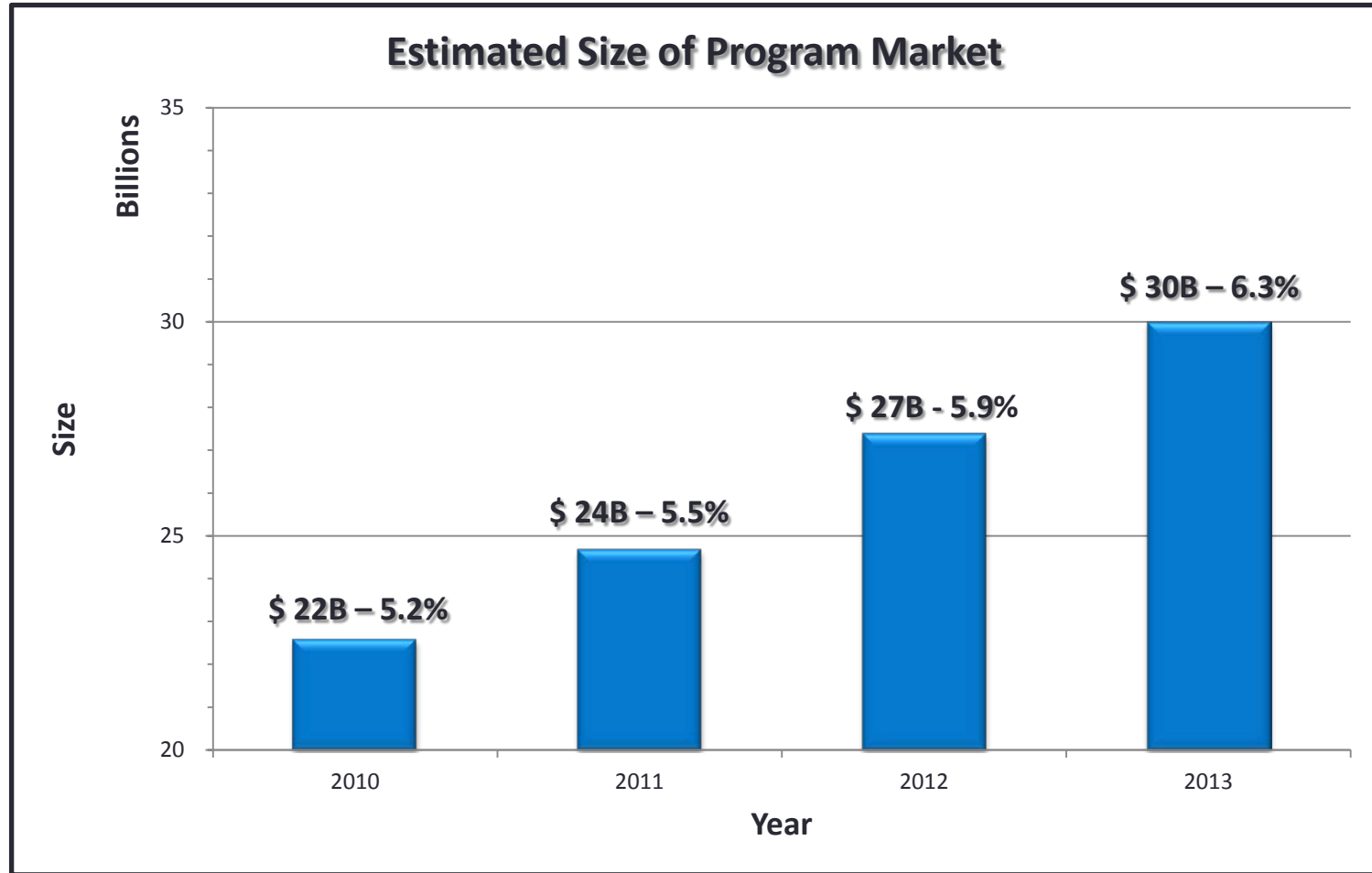
- **Target Markets Program Administrators Association (TMPAA) has 273 Program Administrator members and 52 Carrier members**
 - **Their 2014 Program Business Study estimates the market at \$30.1B in GWP**
- **American Association of Managing General Agents (AAMGA) has 250 Members and 26,479 Total Member employees**
 - **GWP is \$25.97 billion**
- **About 2,075 individual Programs are in the marketplace today**
- **Program GWP is growing faster than P&C market**
- **Lloyd's market accounts for approximately \$5.0 billion**



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Program Market Gross Written Premium



Examples of Programs

- TX non-subscription
- Trucking
- Hospitality (Bars/Taverns)
- YMCAs
- Occupational Accident for Truckers
- Fine Dining
- Residential Contractors
- Underground Storage Tanks
- Small Lawyers



Some Companies Involved in Program Business



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Attraction of Program Business

- **Book of homogeneous business often underwritten from a centralized location**
- **Programs tend to be specialty focused**
 - **MGA has expertise in underwriting, claims and loss control**
- **MGA is often recognized by an industry association as a preferred vendor**
- **Easier to enter a new market without the associated start up costs of entry**
- **Significant amount of data exists on current programs**

Producer Definitions from AAMGA

- **MGA---Managing General Agency**
- **MGU---Managing General Underwriter**
- **General Agent/Contract Binding Authority**

What is an MGA?

- Insurance broker that is given underwriting authority from an insurer to rate, quote, bind and issue policies.
- MGAs appoint Retail Agents or Wholesale Brokers and settle claims
- Is given “underwriting authority” with limitations based on premium, class of risk, size of risk and limits offered
- MGAs benefit insurers because their expertise or marketplace visibility is not always available within a carrier

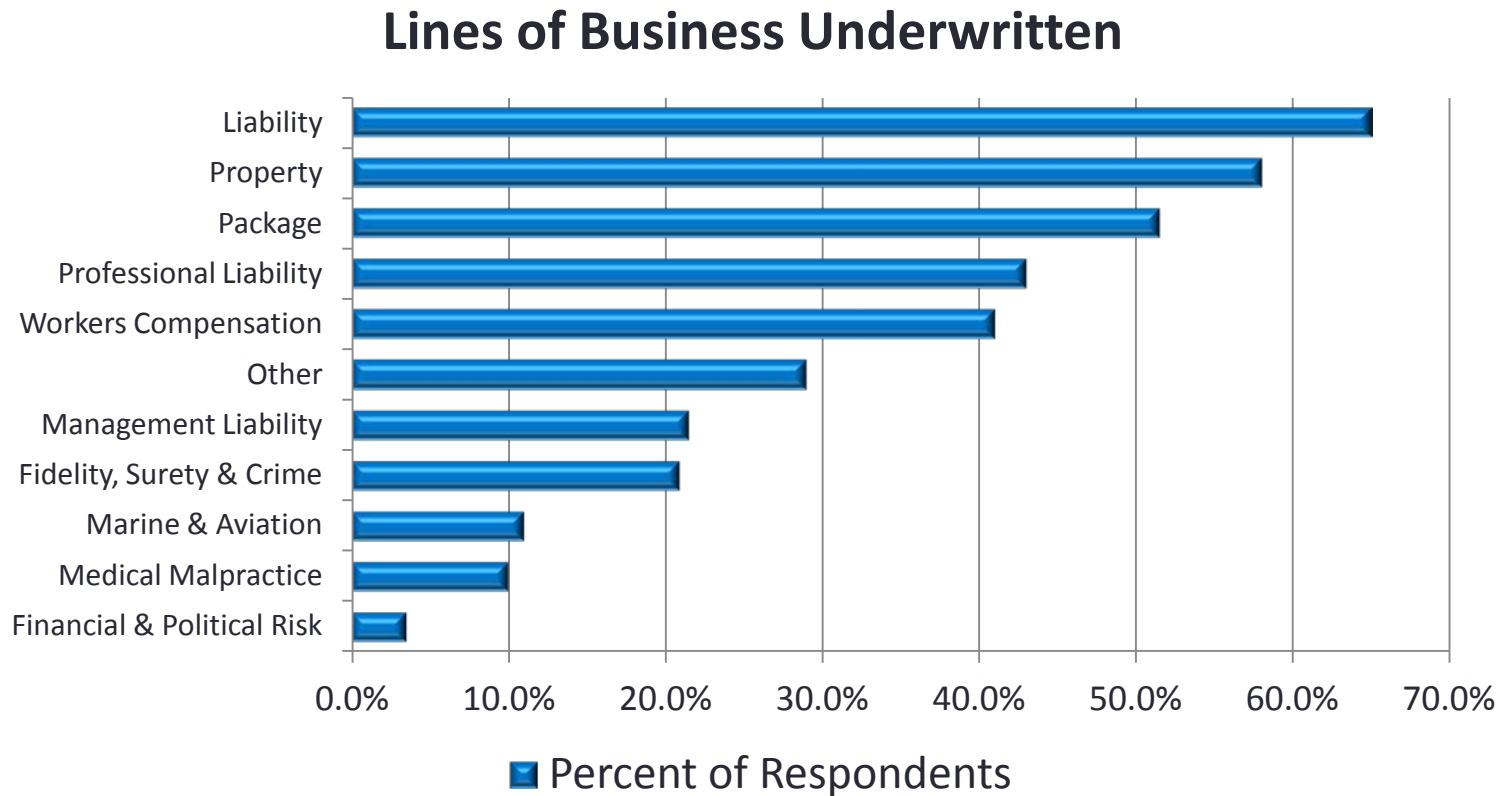
What is an MGU?

- Almost identical to the role of an MGA where authority is granted to Rate/Quote/Bind/Issue Policies
- However, MGUs **do not handle claims**

What is a GA/Contract Binding Authority?

- **A general agent is usually responsible for a limited geographic territory**
- **They may appoint sub-producers within their territory**
- **Tend to have more limited underwriting authority than an MGA/MGU**
- **Contract Binding Agents will access the carriers systems for the “underwriting box” but will handle all servicing of business**
- **Contracts between carrier and GA’s normally include a Profit Commission calculation.**

Which Lines of Business does an MGA Serve?



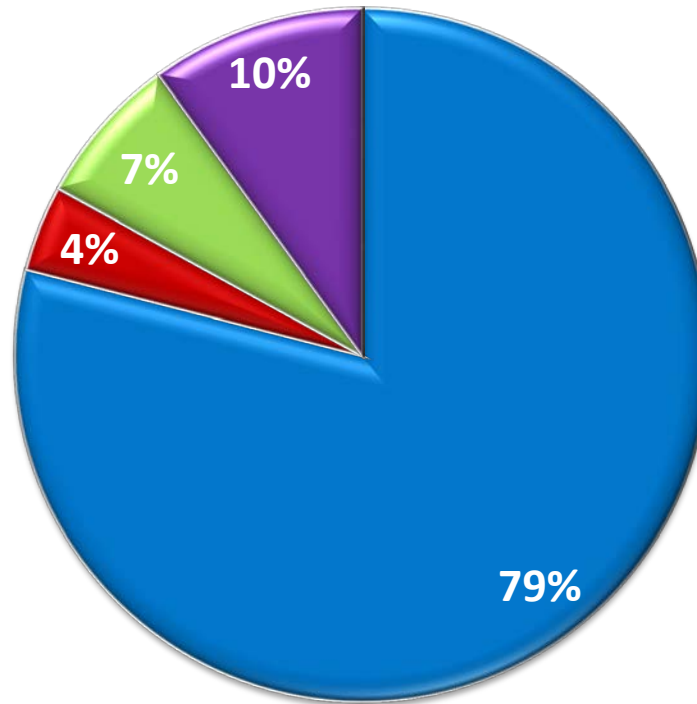
Data source:  ADVISEN
Insurance Intelligence

Program Market Sources

- **AAMGA**
- **NAPSLO**
- **Target Markets**
- **Agencies**
- **Wholesalers**
- **MGAs**
- **Reinsurance Brokers**

Who owns most MGAs?

Type of Ownership



■ Independent ■ Carrier ■ Broker ■ Private Equity

Data source:  ADVISEN
Insurance Intelligence

Industry Trends from Advisen Study

- **M&A**
 - “14% of the administrators polled say their firms were sold in the past three years.”
 - “Smaller firms exhibited a greater propensity to sell as larger firms exhibited a greater tendency to acquire other program administrators.”
- **Carrier Change**
 - “Forty-five percent of the administrators surveyed reported changing a carrier in the past three years.”

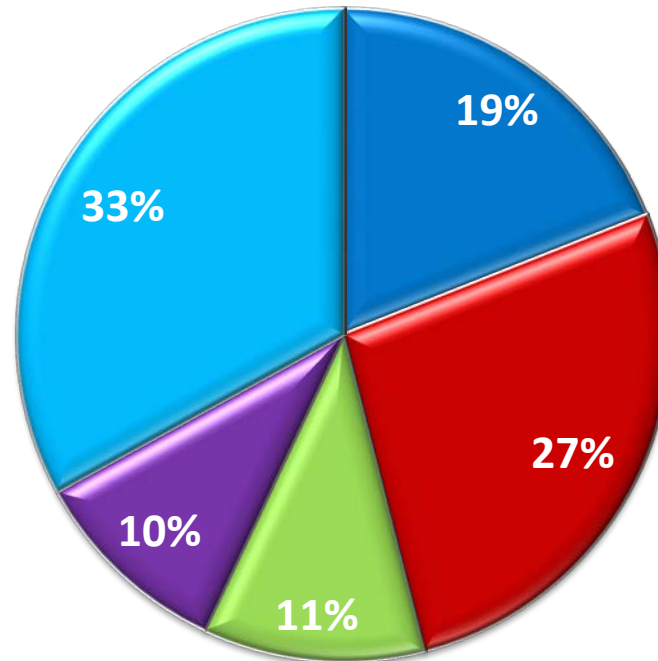
M&A in the Broker/MGA Space

(\$M)

Date	Buyer / Target	Deal Value	Transaction Value	
			EBITDA	Net Revenue
01/20/15	Alliant / QBE US Agency	\$300	10.0x	n.a.
08/12/14	Tiptree Financial Inc. / Fortegra Financial	218	5.9x	1.6x
05/22/14	Brown & Brown / The Wright Insurance Group	602	10.2x	5.0x
09/20/13	JLT / Tower Reins	250	10.0x	1.5x
08/12/13	Gallagher / Bollinger	312	7.8x	3.1x
05/03/13	Hellman & Friedman / Hub	4400	n.a.	3.7x
05/21/13	Brown & Brown / Beecher	360	10.0x	4.3x
11/26/12	Onex / USI insurance Services	2300	n.a.	3.5x
05/01/12	Brown & Brown / Insurcorp	33	n.a.	6.7x
04/03/12	BB&T / Crump	570	9.0x	1.8x
03/14/12	AmWINS / New Mountain Capital	1500	13.0x	n.a.
12/15/11	Brown & Brown / Arrowhead	422	10.0x	3.6x
05/26/11	Hub / First Southeast	38	n.a.	1.8x
			Median 10.0x	
			Average 9.5X	

Carrier Change within MGA Space

Reason for Change in Program Carriers



- Company rating downgrade or demise
- Differences with underwriting guidelines and pricing
- Territorial expansion
- Company non renewed program
- Other

Data source:  ADVISEN
Insurance Intelligence

Insurance Carrier View of Program Business

- **Most Companies write between 10 and 20 individual programs, and have a book between \$50M and \$100M in program business.**
- **An underwriter typically handles 2-3 programs, but may handle up to 5 programs depending on size and complexity of the book**
- **Creation of the underwriting guidelines and pricing model dramatically impacts the book's development and profitability**
- **Admitted business increases program costs as premium taxes and rate filings are considered**
- **Property CAT exposures present additional monitoring concerns**

Insurance vs. Reinsurance

- It's all about the economics → There is only \$1 Premium to divide!
- Easier to control a program as an insurer → Closer to the Biz
- As a reinsurer → One monitors the carriers oversight of the MGA
- Gradual change in program business is a move from one carrier with multiple reinsurers to multiple carriers
- Most programs are kept net or put into mainframe treaties and reinsurance is split between XOL and QS Support



Program Business Can Be Dangerous!



Challenges of the Program Business

- In 1994, The Dingel Report titled “Failed Promises” highlighted many issues regarding fronting and lack of oversight of the business and business partners
- Alignment of interests between the MGA and insurance carrier?
- As a program moves from carrier to carrier what is the reliability of the data?
- The carrier is faced with a reputation risk since it’s their paper in the market
- Channel conflict with existing distribution partners and the ability to interface IT can be problem areas which need to be addressed
- Contingent commission length is shorter than tail on written business and there’s often a push for additional compensation on profitable programs

How to write profitable programs?

- **Pick the right program partner**
- **Try to align interests with: premium cap, sliding scale, key man clause**
- **Conduct due diligence upfront regarding IT interface, U/W expertise, pricing model, and use of fees can; it will save time and cost of biz**
- **Program management including claims, pricing targets, underwriting, premium collection and handling of consumer complaints is critical**
- **Special Acceptances, monthly bordereau review, quarterly U/W audits and annual transactional audits are helpful in overseeing the business**
- **Know when to exit quickly!**

Actuaries and Underwriters Working Together





Thank You!

Steven K. Dresner
June 9th, 2015

