Overview of MGA Operations and Marketplace

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MaritimeProgramGroup

coverage in *motion*

What is a Managing General Agency (MGA)?

- Current vernacular "A Program Administrator" (PA)
- An organization that carries underwriting authority on behalf of a carrier and may or may not have claims authority.
- An entity that must be licensed as an MGA generally has three criteria: (this varies state by state)
  - Claims authority
  - Underwriting Authority
  - Ability to bind reinsurance

  OR if they underwrite 5% or more of a carriers policy holders surplus

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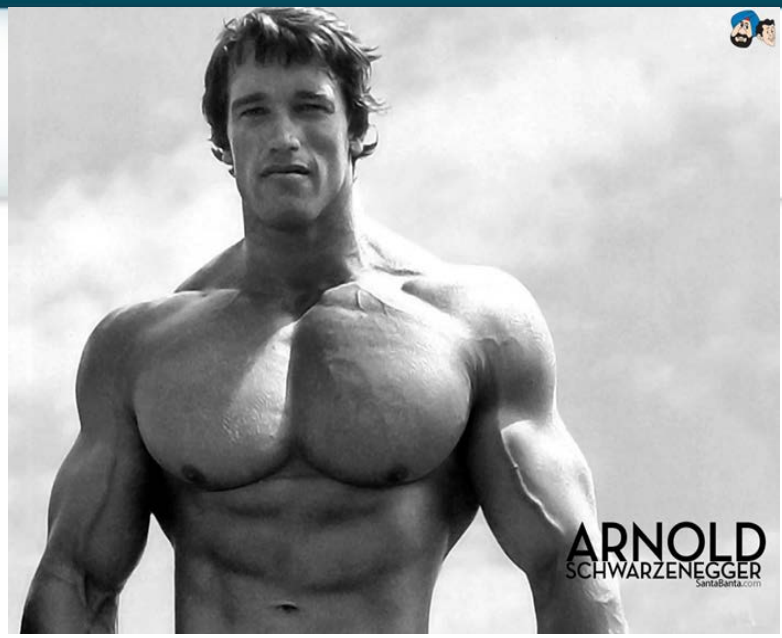
The difference between an MGA and a Wholesaler

- An MGA represents the carrier and is focused on the placement of risk that fit its appetite. If a risk doesn't fit, the MGA declines the risk.
  - The interest of the MGA and the Carrier are completely aligned
- A wholesaler represents the retail agent. Their job is to canvass the market to find a carrier for a given risk, regardless of the risks perceived insurability.
  - The interest of the Wholesaler is aligned with the producing broker.

How big is the MGA marketplace?



It's Arnold Big!

- Premiums underwritten by Program Administrators exceeded $30 billion in 2013
- Approximately 10% of the overall commercial insurance market

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How big is the MGA marketplace?

And growing…

- Growth in Program Business outpaced the overall growth of Commercial Insurance
  - 9.8% growth in PB v 4.6% in Commercial Ins in 2013
  - PB market grew 11% v 3.3% for non-PB commercial lines since 2011

- Roughly $1 out of every $10 spent on commercial insurance is through an MGA.

- Estimated to be approx 1,000 MGA's with over 2,100 distinct programs in the U.S.

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Why do Carriers use MGA's?

- Distribution
  - Typically the carriers that are not as well distributed in the retail agencies
- Product expertise in a given niche
- Lower cost of expanding premium writings
- Quicker way to grow in a given segment
- Often see start-up carriers utilize the MGA model as an outsource for all underwriting, claims, loss control and systems.

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Carrier Acquisition Cost

- For carrier typically 35% – 50%
- Driven by higher salary costs, regulatory compliance, expensive infrastructure costs
- Using an MGA generally costs between 20% - 27.5% plus 7%-8% for MGA oversight, capping costs near 35%
- Higher acquisition cost typically means higher minimum premiums

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The MGA Advantage

- More nimble. Quicker to market and adapt new product changes as we're less bureaucratic, more entrepreneurial (generally)
- Can operate more efficiently – Less constrained by huge, costly "legacy" systems that inhibit your ability to innovate
- Can typically work on the smaller accounts below carrier minimum premiums and still make a financial profit
- Very low cost for maintaining broker appointments

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The MGA Disadvantage

- We spend commission, carriers spend premium
    - Carriers have larger budgets for salary, marketing, IT etc.
    - More resources for recruitment and training - A HUGE CONCERN
- Agents typically always prefer to deal “direct” with a carrier
- Limited ability to pay contingents, which are near and dear to an agents heart

The MGA Disadvantage

- Branding – Few MGA's have brands that are recognized at the retail level

CHUBB

TRAVELERS

AIG

- More difficult to have a physical national marketing presence

- Typically held to a higher standard then carriers underwriters

  - If you're going to give the pen, you need to have tight controls to ensure no abuse of the pen.

  - Authorities are often (but not always) less then what a carrier will give to their in-house underwriters

- Often dealing with a referral underwriter at the company that does not understand your line of business

MGA Strategy for Success

- We MUST out service the carrier
- Control costs to allow a margin for small account business
- Live in the niche – can't be a jack of all trades
- Leverage technology
- Find the local brokers
- Marketing, marketing, marketing

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Operating an MGA

Are you ready for the exciting part?

Operating an MGA

- We operate similarly to any division of an insurance company with focus on:
  - Underwriting
    - Defined guidelines
    - U/W grants of authority
    - Documentation for risk selection
    - Internal and Home office Audits
    - Actuarial reviews (internal or externally generated)
  - Product Development
  - Marketing
  - Distribution
  - Sales Management
  - Systems
  - HR
  - Accounting

Recruitment:

"With retirements, the industry will need to fill 400,000 positions by 2020. Despite this deficit, and the employment opportunities, among the future job pool—high school students—over 40 percent say they are not interested in pursuing insurance as a career" - Peter Miller, President and CEO of The Institutes

Do we have a reputational issue?

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Biggest Challenges Facing MGA's

- Recruitment
- Increased salary costs
- Cost and Management of Technology
- Cyber-Threat
- Carriers employing more technology can erode value prop for using MGA
- Integration and heavier dependence on modeling

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Biggest Challenges Facing MGA's

Operational Complexity as you grow:

- Administrating in excess of $115,000,000 in premium
- Over 26,000 policies
- 3,000+ agents
- multiple office locations
- Multiple programs with multiple carriers
- And a growing staff of 60+

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Demographics of todays MGA

We're getting old!

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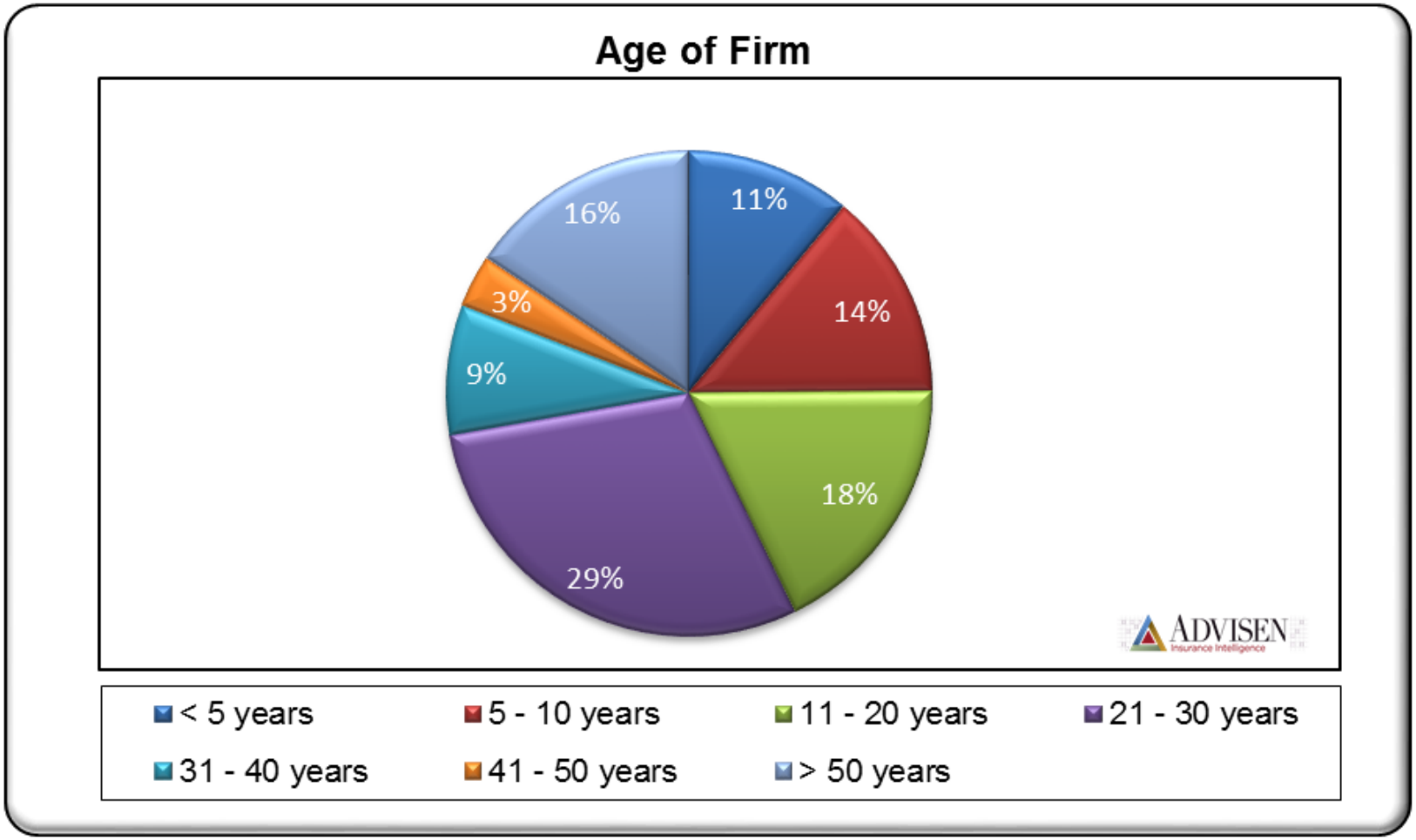
Demographics of todays MGA

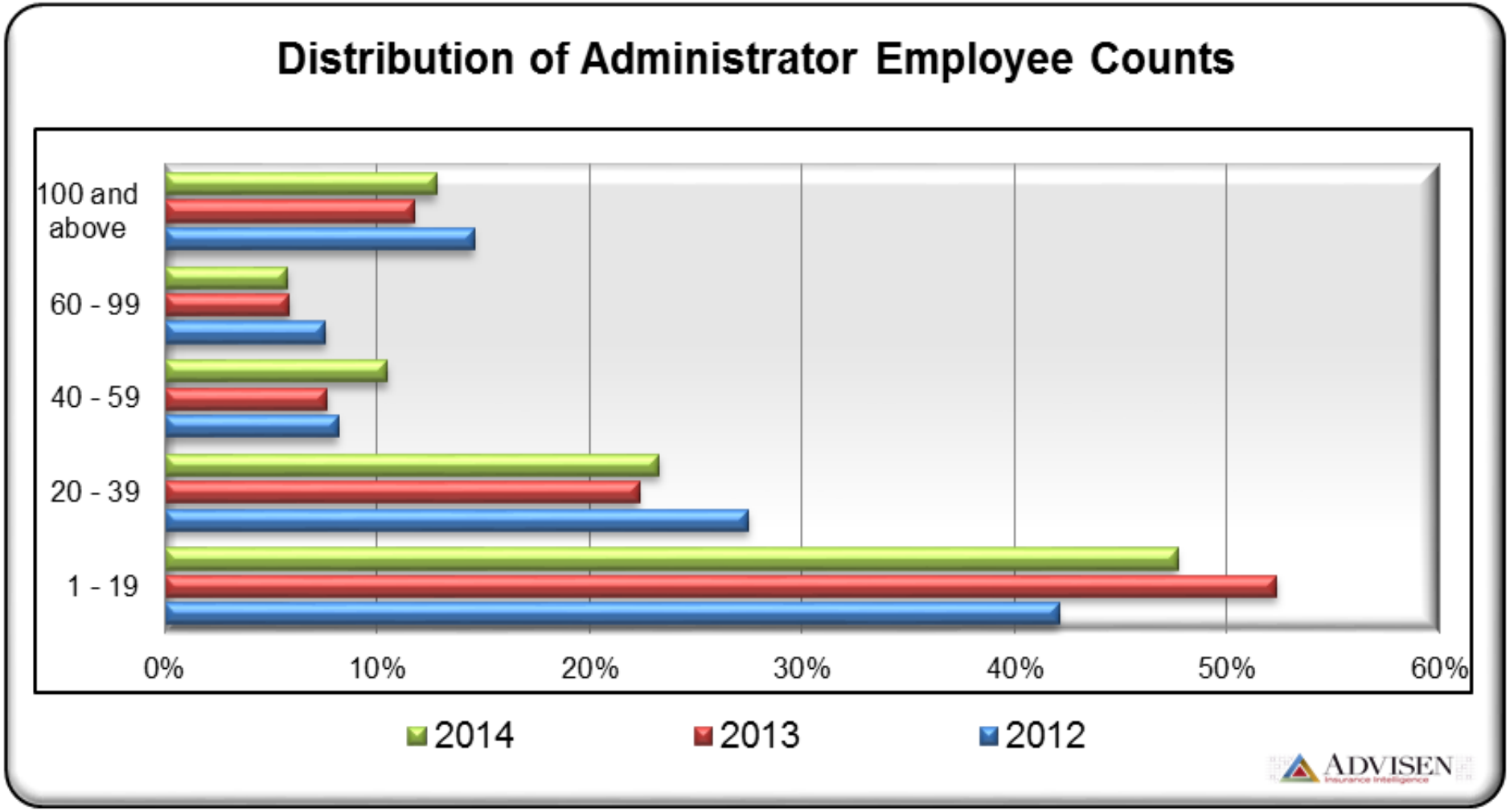
Overall, over 57% of MGA's have been in business for > 21 years.



Source: Target Market Association Program Business Study & Advisen

Demographics of todays MGA

The majority of MGA's are small firms with < 20 Employees



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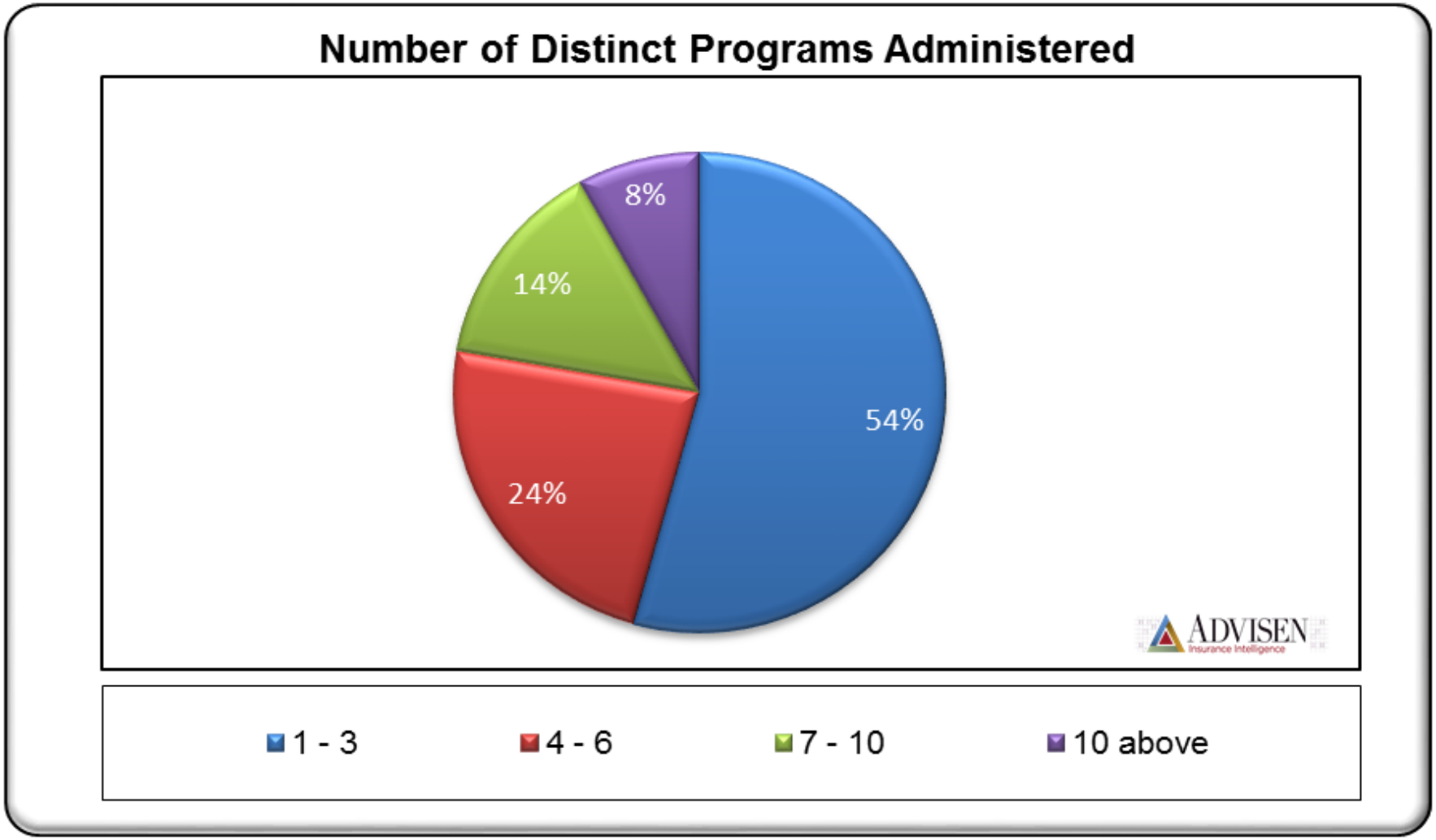
Demographics of todays MGA

The majority of MGA's manage 1 – 3 programs



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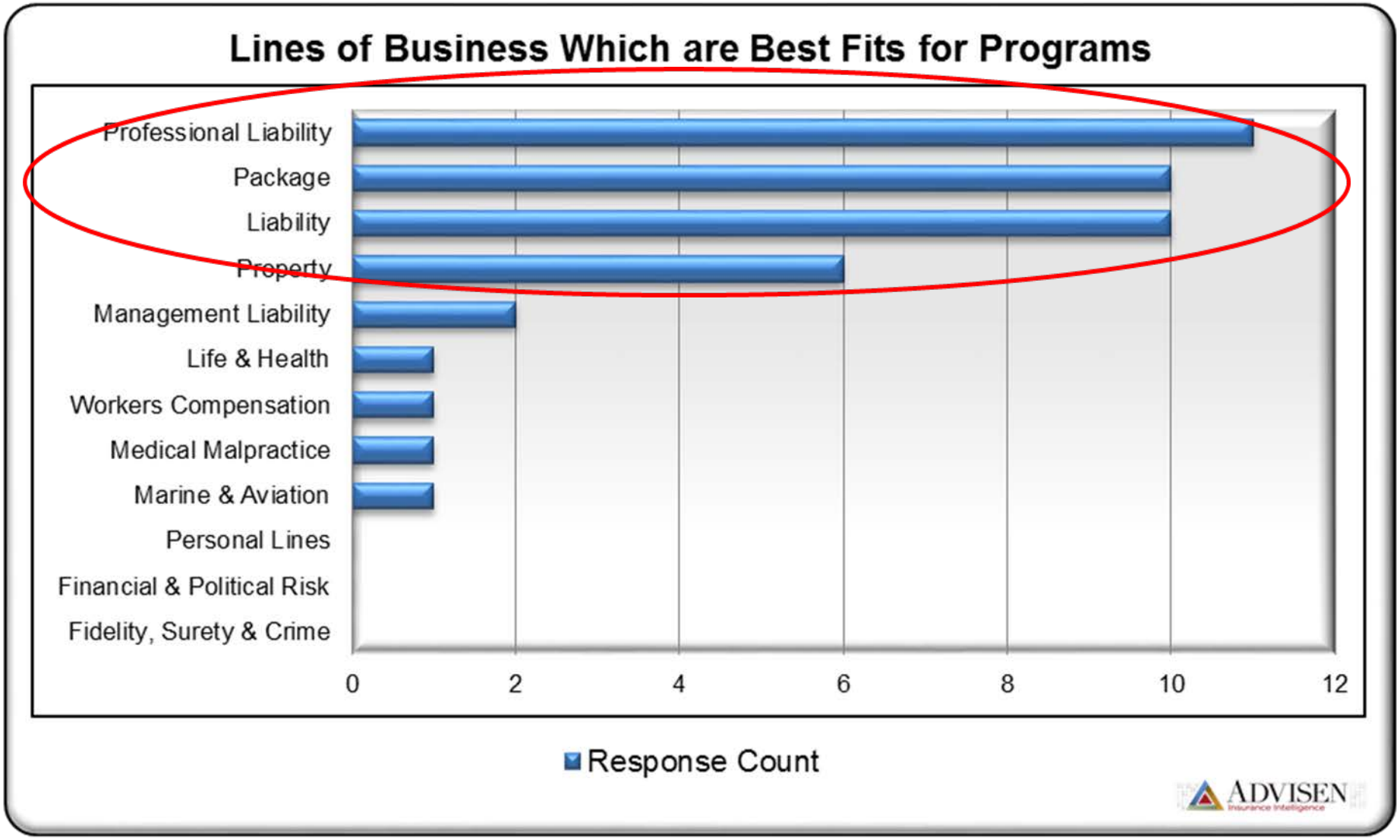

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Attributes of a successful MGA

- **Longevity of relationship with carriers**
- **Leadership team has carrier experience or at least understands the carriers perspective**
- **Operate separately and distinct from retail operations**
- **Employ underwriters from within the niche they serve**
- **Tenure in staff**
- **Consistently driving profitable results**
- **They share in the underwriting result – i.e. They eat what they cook!**

Questions?

American Marine Insurance Forum
New York

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AND
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coverage in *motion*

Thank You

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