

MGA Management - A Marine Perspective

By: Christopher L. Pesce
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coverage in motion



What is a Managing General Agency (MGA)?



American Marine Insurance Forum



New York

- 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 reinsuranceOR 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 represent the retail agent. Their job is to canvases the market to find a carrier for a given risk, regardless of the risks perceived insurability.
 - The interest of the Wholesale is aligned with the producing broker.



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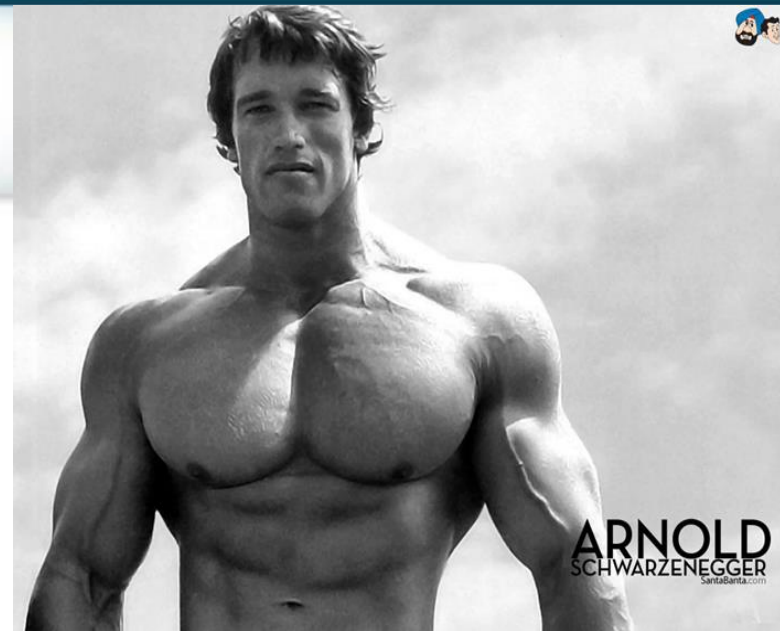


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How big is the MGA marketplace?

It's Arnold Big!



- Premiums underwritten by Program Administrators exceeded \$30 billion in 2014
- Approximately 10% of the overall commercial insurance market





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





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.





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





The MGA Advantage



- More nimble. Quicker to market and adapt new product changes as we're less bureaucratic
- 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





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



- More difficult to have a physical national marketing presence
- Typically held to a higher standard than 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 than 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





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)
 - Marketing
 - Distribution
 - Sales Management
 - Systems
 - HR
 - Accounting



Biggest Challenges Facing MGA's



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?





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





Biggest Challenges Facing MGA's



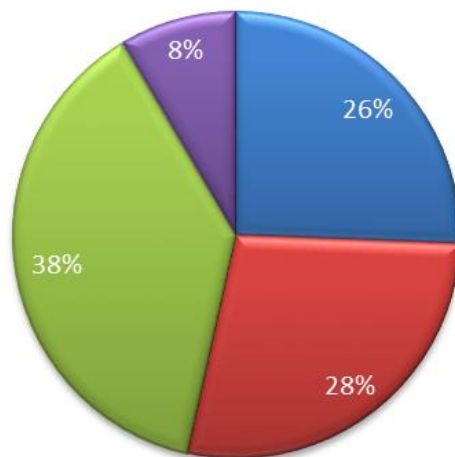
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The MGA's Perspective

Does your organization or your carrier engage in predictive modeling?



ADVISEN
Insurance Intelligence

■ Yes, my organization

■ Yes, my carrier

■ No

■ Don't Know



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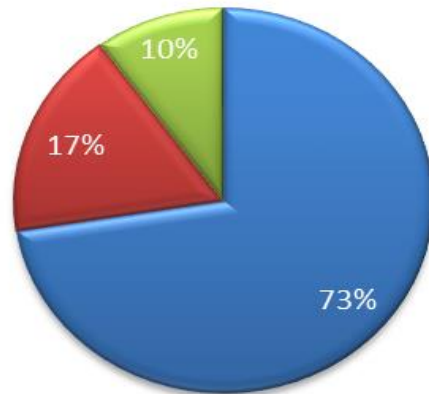


Challenges - Predictive Modeling



73% of program carriers are using it.

Use of Program Analytics



■ Yes

■ No

■ Don't Know



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Demographics of today's MGA



We're getting old!



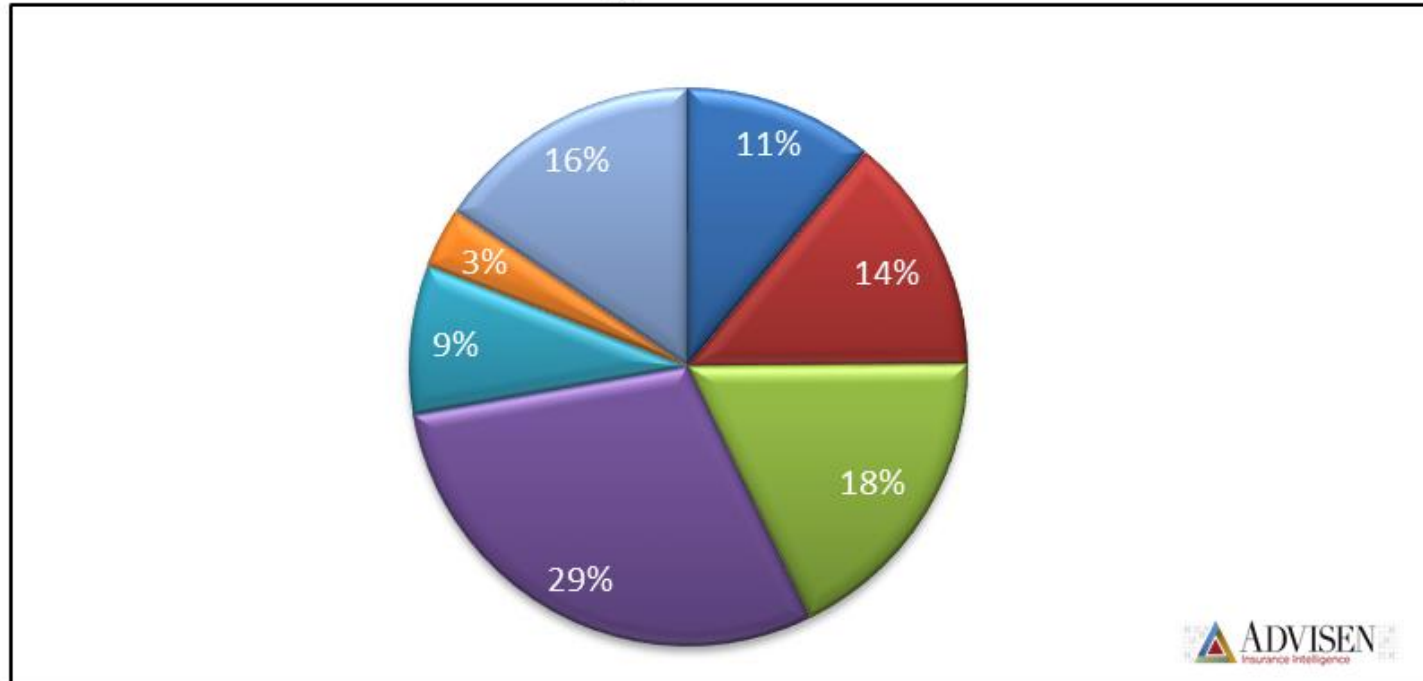


Demographics of today's MGA



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

Age of Firm



■ < 5 years ■ 5 - 10 years ■ 11 - 20 years ■ 21 - 30 years
■ 31 - 40 years ■ 41 - 50 years ■ > 50 years



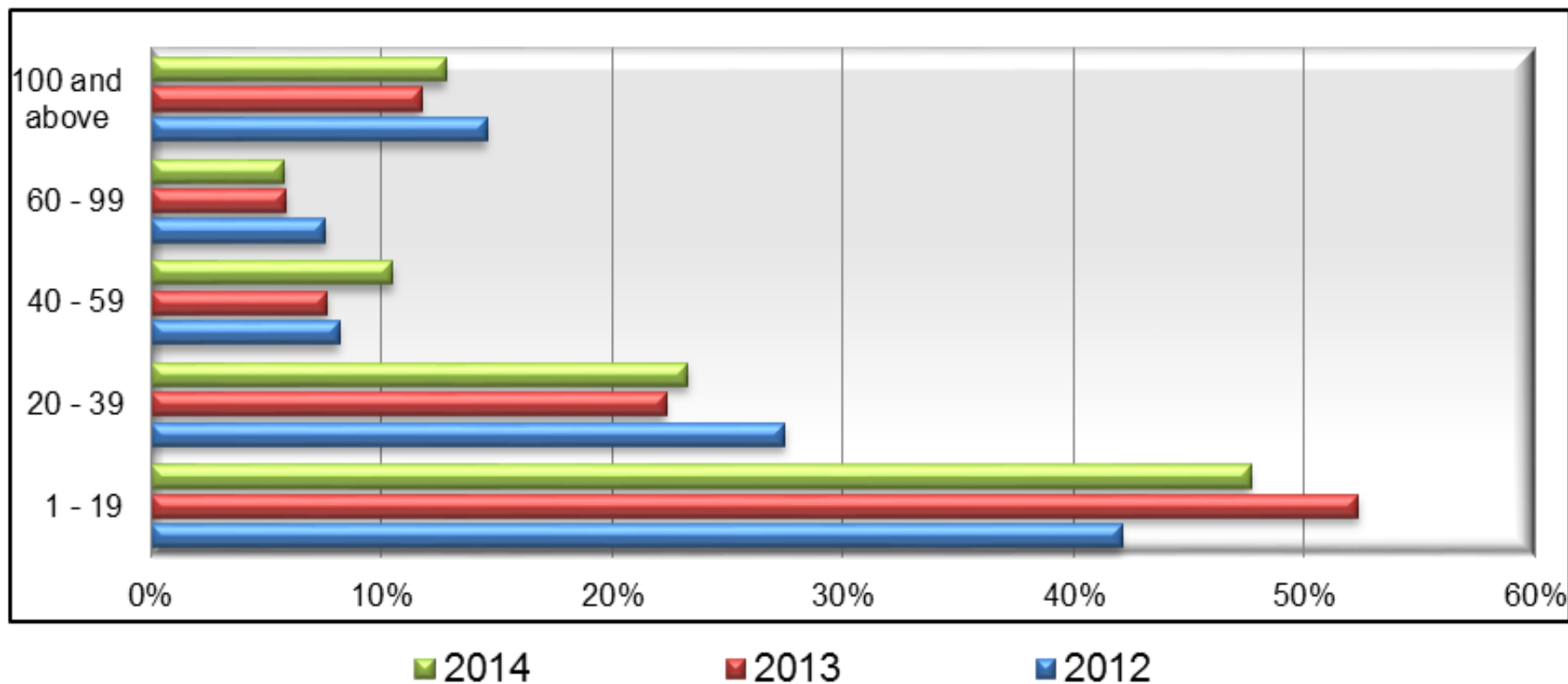


Demographics of today's MGA



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

Distribution of Administrator Employee Counts



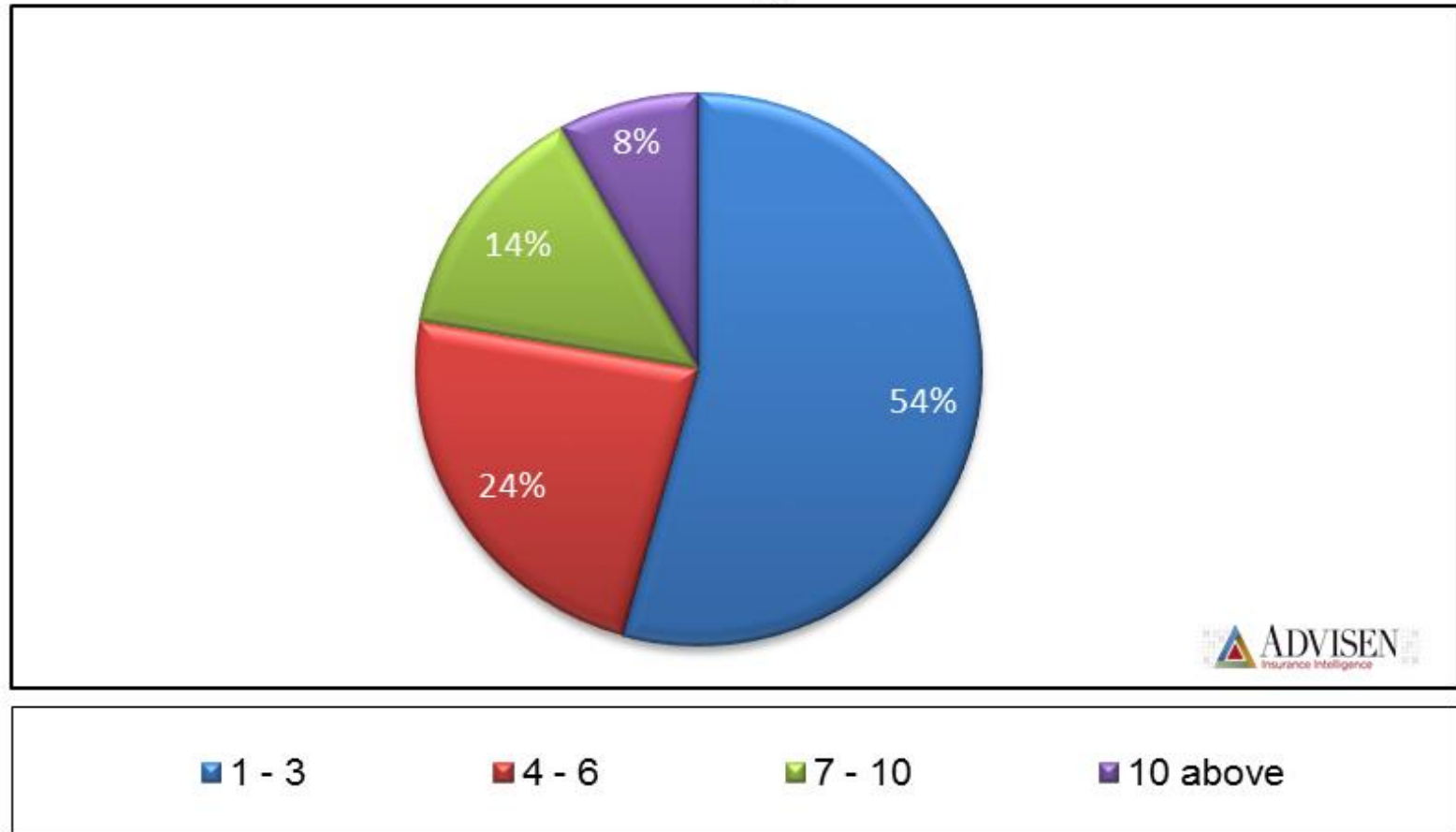


Demographics of today's MGA



The majority of MGA's manage 1 - 3 programs

Number of Distinct Programs Administered

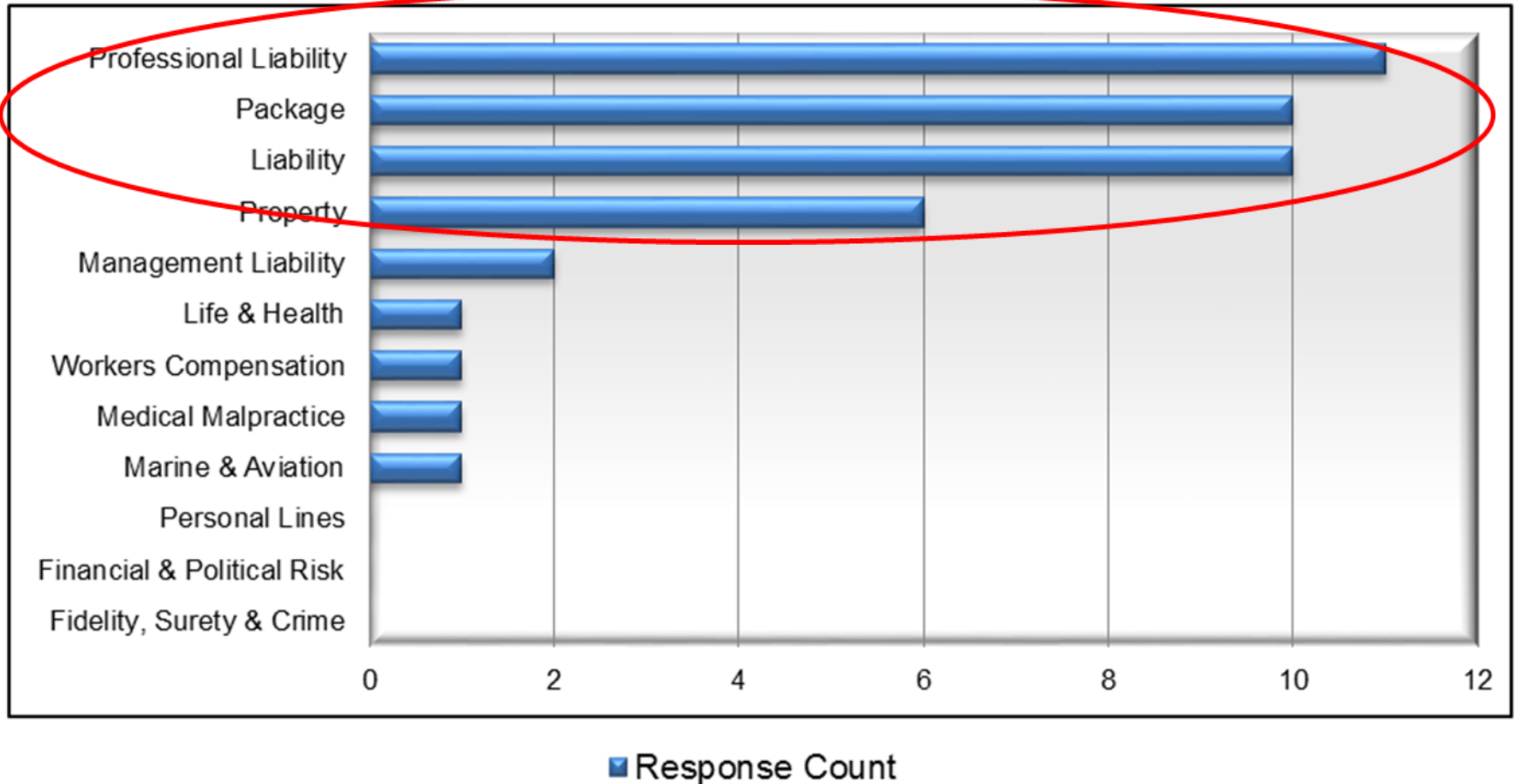




Demographics of today's MGA



Lines of Business Which are Best Fits for Programs





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
- Tenor in staff
- Consistently driving profitable results



Questions?





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coverage in motion

Thank You

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