TARGET MARKETS

Program Administrators Association

The TMPAA State of Program Business 2013

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CONTENTS

Introduction and Executive Summary

In 2011, the Target Markets Program Administrators Association (TMPAA) embarked on ground-breaking research that sought to document the size and characteristics of the program business. Data gathered from survey respondents helped bridge the information gap in an industry that relied mostly on best estimates and guesswork in the past.

The inaugural survey yielded valuable insights from 92 program administrators and 34 carriers about the size and scope of the program administration business as well as the trends that affect the industry.

As appreciation for program business data grew, so did the number of administrators and insurers willing to contribute their views to the study. The 2012 study recorded a dramatic increase in participants, with over 190 program administrator and 43 insurer surveys submitted.

A key finding of the 2011 and 2012 surveys was that the program business is thriving despite the overall soft market for property and casualty insurance. Administrators polled expressed optimism about the current state and the future of the program business. These positive statements were backed with data on premiums administered, renewal rates, and net revenue.

The 2012 survey went beyond documenting the size of the market and tracking the growth of the program business. It presented a snapshot of program administrator views and practices in terms of commissions paid, merger and acquisition activity, and use of information technology in their business.

With the success of the first two surveys, "The 2013 TMPAA State of Program Business Study," was launched to provide a steady stream of program business intelligence to nearly 400 TMPAA members. It looked into 2012 business results.

With 214 program administrator and 43 carrier responses, the 2013 survey pushes the envelope further as it looks into other important facets of the program business such as program definition, the major challenges faced by both administrators and insurers, and marketing practices in the program space. As with the first two surveys, readers will benefit from the insights gathered from a comparative analysis of administrator and carrier views.

In addition to presenting an analysis of responses from program administrators and carriers, the TMPAA also conducted a two-part analysis of the market: (1) a survey response analysis and (2) a U.S. market analysis.

As an increasing wealth of data is gathered year after year, TMPAA members benefit from a growing body of benchmarking data designed to assist them in conducting their businesses more efficiently with greater proficiency and profitability. This forms part of the TMPAA's efforts of assisting its members in "getting the business done." Tools and resources such as this survey help ensure an important return on investment.

As with the 2011 and 2012 surveys, the research was conducted in tandem with Advisen Ltd., a global provider of information and analytical tools for risk managers and the commercial insurance industry. The production and publication of the benchmarking report was sponsored by Scottsdale Insurance Company and Western Heritage Insurance Company – members of the TMPAA.

The question topics for the 2013 survey were designed and reviewed by a committee of TMPAA member Program Administrators and Carriers, the TMPAA Board, Advisen and the New Street Group (TMPAA Special Consultant for the Program Business Study).

Advisen conducted an online survey of TMPAA members between June 17, 2013 and September 13, 2013. "The TMPAA State of Program Business Study 2013" survey examined both program administrators and program insurance carriers.

Key Findings

Overall

- Program administration is a large business at $27.4 billion in premiums – roughly one in ten of the dollars spent on commercial property/casualty insurance today. The estimated size of the market rose 10.8 percent from $24.7 billion in premiums in 2011.
- The program business is growing more quickly than the overall commercial insurance marketplace. While the size of the program business rose 10.8 percent, the growth in direct premiums written for commercial lines increased by only 3.3 percent.
- Carriers and program administrators report an estimated 2,075 individual programs – an increase of 3.5 percent from the 2,000 individual programs estimated for 2011.
- "**The TMPAA State of Program Business Study 2013**" found that the number of confirmed organizations in the United States that meet the definition of program administrator remain relatively unchanged. From the estimated 950 program administrators estimated in the 2012 survey, TMPAA recorded a slight increase to 1,000 for this year's survey.
- Program administration is a growing and vibrant market. Many administrators reported growth in their book in a challenging market place. They are also optimistic that this growth will continue in the future.

Comparative Analysis of Administrators' and Insurers' Views on Key Topics

One of the major components in creating a successful program is the relationship between program administrators and carriers. An alignment of interests is often crucial in achieving objectives.

This survey found significant similarities in the responses of program administrators and insurers in terms of key topics such as program definition, program considerations, program success criteria, and challenges faced by the program business. We asked administrators and insurers a number of questions to understand their perspectives and to gauge the level of alignment.

Program Definition

There seems to be a general agreement among administrators and insurers on what constitutes a program. On the issue of whether or not administrators should have the sole right to issue a quote for an account that fits the guidelines of their program, over 90 percent of both groups agree that the administrator should have this type of exclusivity.

While administrators and insurers have many similarities, differences are seen in their perspectives which are driven by the difference in their roles in the process – the organization trying to write the business versus the risk-bearing organization.

- The survey looked into the minimum level of underwriting risk selection discretion granted to the administrator. There were four response options given: No discretion (Administrator has a closely defined set of guidelines – all else referred.); Limited discretion (Administrator has a loosely defined set of guidelines – others are referred.); Wide discretion (Administrator has wide discretion with very few referrals); and Not applicable (This should not be included in the definition.).

  Forty-one percent of program administrators and 42 percent of insurers agree that there should be limited discretion (loosely defined set of guidelines). It is interesting to note, however, that the difference comes in the fact that 39 percent of administrators view wide discretion (wide discretion with very few referrals) as defining a program, while 44 percent of the insurers say no discretion (closely defined set of guidelines).

- On the issue of minimum level of pricing discretion granted to an administrator, respondents were asked to select from four options: No discretion (Administrator has a closely defined rating plan – all else referred.); Limited discretion (Administrator has a loosely defined rating plan – others are referred.); Wide discretion (Administrator has wide pricing discretion with very few referrals.); and Not applicable (This should not be included in the definition.).

  Limited discretion (loosely defined rating plan) numbers are the same for both administrators and insurers at 47 percent. Despite this similarity, it is noteworthy that 38 percent of the administrators felt that wide discretion (wide pricing discretion with very few referrals) was appropriate and 42 percent of the Insurers felt that no discretion (closely defined rating plan) was appropriate.

- In terms of the minimum level of binding authority, the respondents were asked to select from four options: No binding authority (Administrator cannot issue a quotation prior review.); Limited binding authority (Administrator can issue quotations on accounts fitting well-defined guidelines.); Wide binding authority (Administrator can issue quotations on accounts with very few referrals.); and Not applicable (This should not be included in the definition.)

  There seems to be a broad agreement in terms of the minimum level of binding authority granted to an administrator. Both survey groups are torn between giving limited (Administrator can issue quotations on accounts fitting well-defined guidelines) and wide (Administrator can issue quotations on accounts with very few referrals) level of binding authority. For the administrators, 52 percent tend to believe that an administrator should be granted wide binding authority (Administrator can issue quotations on accounts with very few referrals), while 44 percent feel that there should be limited binding authority (Administrator can issue quotations on accounts fitting well-defined guidelines). In the case of insurers, 56 percent think that there should be limited binding authority, while 36 percent feel that there should be wide binding authority.

Program Considerations

When considering partnerships, administrators and insurers seem to be looking for the same thing: track record.

- When asked about the most significant carrier attributes in terms of their importance to a successful program, the administrators said underwriting appetite for new programs, scope of underwriting authority, responsiveness to referrals outside of underwriting guidelines, history of supporting programs long-term, and flexibility of underwriting guidelines are the most significant.
- As with the previous survey, a program administrator's experience with other programs and time in the business are the two most important factors that carriers consider when deciding whether or not to partner with administrators.

Program Success Criteria

As would be expected, program administrators and insurers are in sync when it comes to their view of what matters most when establishing a successful program

- Underwriting profitability and the carrier topped the list of most valuable factors that program administrators find important in terms of building a successful program for the third year in a row. A new factor added in the 2013 survey is customer service experience with claims, which also ranked high.
- Similar with the previous survey, estimated profitability and strength of administrator are the most important factors needed to build a successful program.

Challenges Faced by the Program Business

A look into views on top issues and challenges facing the program business reveal a number of similar responses between administrators and insurers. One major similarity is that both administrators and insurers are looking for good partners. The program administrators want insurers who are able to commit as long-term stable partners. Insurers want a program administrator who will work with them in underwriting and risk selection.

- Like the rest of the insurance industry, the program business is faced with a host of issues and challenges. For administrators polled, many of the responses revolve around their carrier partners with the top issue cited being the lack of patience and long-term commitment by carriers. Among the challenges cited by respondents under this topic are the carrier's willingness to work cooperatively with administrators in developing new programs, the limited number of carriers in the program space, carriers not truly partnering with program administrators; and carriers' unwillingness to consider smaller programs.
- In the case of insurers, the top issues are the soft market, technology, and underwriting skill and discipline.
- Program administrators and insurers polled are in agreement that technology is a key challenge. Some players in the program business are finding it difficult to keep up with and leverage use of technology.
- Both administrators and insurers are also faced with the lack of qualified applicants.
- Finally, it is worth noting that many administrators mentioned a lack of workers' compensation markets.

Marketing Practices

A look into marketing preferences and practices reveal that both administrators and insurers are keen on promoting the program business and the various programs by conducting marketing activities.

- Many of the program administrators polled allocate a greater share of their marketing and sales promotion expenses to face to face meetings, which they believe is still the most effective means of promoting their business. The least amount goes to social media which, in their view, is the least effective.
- The carriers were asked about the forms of marketing support they provide to programs. Among their responses, advertising ranked first, followed by sales promotion materials, and market research. Lowest on the roster are customer relationship management (CRM) tools and mail campaigns. An analysis of responses shows that various forms of marketing support are provided across all program types whether they are new, successful, or struggling. When it comes to advertising, greater emphasis is given to new programs. While existing struggling programs receive various forms of marketing support, they are given slightly lesser attention when it comes to advertising, sales promotion materials, and mail campaigns.

Program Administrators

- As with the 2012 survey, the program administrators who participated in the 2013 poll come from firms which are relatively small in terms of number of employees, gross written premiums, and number of distinct programs administered.
- Many program administrators polled remain bullish on future prospects for the program business. Program administrators who provided comments expressed optimism over continued growth of the industry.
- Figures gathered from poll show that program administrators do have reason to believe that the future of the program business is rosy.
  - A comparative analysis of the percentage increases in premiums from 2010 to 2012, for one, shows that program administrators fared better in 2012. Compared to 52 percent in 2010 and 72 percent in 2011, 82 percent of program administrators surveyed reported increases in premiums administered for 2012. The average increase reported for 2012 was10 percent compared to 9 percent in 2011 and 4 percent in 2010.
  - Administrators polled also continued to report a high renewal rate of 84 percent – the same level as with the two previous surveys.
  - Seventy-six percent of the program administrators polled reported increases in net revenues (before tax change) in 2012.
- The survey revealed significant differences between the larger and smaller program administrators, one of which is that larger firms exhibited a greater tendency to purchase other program administrators. The larger firms also tend to perform more services in-house such as actuarial, marketing, and technology, as opposed to smaller firms which have a greater propensity to have some services handled by either a carrier or a third party.
- More than half of the program administrators polled said their underwriters/producers are paid incentive compensation bonuses on an annual basis. One-fourth of the administrators pay quarterly, 14 percent monthly, 9 percent bi-annually, and 3 percent bi-monthly. The larger program administrators tend to pay on an annual basis. The most important factor considered in making this decision is new business.
- Respondents were asked to rate 13 carrier attributes in terms of their importance to a successful program. Attributes could be rated as Most Important, Important, Not as Important or Least Important. We assigned a scale of 1 to 4, with 1 as the least important and 4 as the most important. We then created a composite score based on the average of the values provided.
- On top of the list are (1) underwriting appetite for the program, (2) scope of underwriting authority, (3) responsiveness to referrals outside of underwriting guidelines, (4) history of supporting programs long-term, and (5) flexibility of underwriting guidelines.
- After identifying the most important carrier attributes, the administrators were then asked to rate their top three carriers on a scale of 1 to 5 with 5 as the highest in terms of (a) underwriting appetite for the program, (b) speed to market – how quickly a program generates business, (c) underwriting knowledge for segment or niche, (d) flexibility of underwriting guidelines, (e) responsiveness to referrals outside of underwriting guidelines, (f) referral submission turnaround time, (g) risk engineering (safety and loss prevention) services, and (h) claims management reputation. A composite score was then created based on the average of the values provided.

- The table below shows the top three carriers for each of the factors. The insurer needed to have at least five respondents rating them for them to be included in the list of top carriers. These rankings reflect only the views of the 130 program administrators who responded to this specific question. The top ten carriers and their scores are shown in the body of this report.

Carrier Attribute	Top Three Carriers
Underwriting appetite for the program	1. Zurich North America 2. Arch Insurance Group 3. Lloyds
Speed to market – how quickly a program generates business	1. Lloyds 2. Great American Insurance 3. SPARTA
Underwriting knowledge for segment or niche	1. Great American Insurance 2. Munich Reinsurance America 3. Arch Insurance Group (tie score) 3. Scottsdale Insurance Company (tie score)
Flexibility of underwriting guidelines	1. Lloyds 2. Arch Insurance Group 3. SPARTA
Responsiveness to referrals outside of underwriting guidelines	1. Arch Insurance Group 2. Munich Reinsurance America 3. Great American Insurance
Referral submission turnaround time	1. Arch Insurance Group 2. Munich Reinsurance America 3. Great American Insurance
Risk engineering (safety and loss prevention) services	1. Great American Insurance (tie score) 1. Arch Insurance Group (tie score) 3. Zurich North America (tie score) 3. Scottsdale Insurance Company (tie score)
Claims management reputation	1. Great American Insurance 2. Zurich North America 3. Arch Insurance Group

Insurers

- There is a variety of insurers specializing in programs. As with the previous survey, 46 percent of carriers polled insure between 11 to 30 programs. The difference comes in the "more than 30 programs" bracket. In 2011, only 23 percent of the carriers polled said they insure more than 30 programs. This year, 37 percent of the respondents said they insure more than 30 programs.
- Carriers were asked about the coverages they offer. The most frequent areas mentioned by survey participants are Professional Liability, Casualty, and Packages. Among the various lines, the highest average premium volume was recorded for workers' compensation, while the lowest was for management liability.
- A look into program consideration showed that rate adequacy remains as insurers' top priority when considering whether or not to write a new program or accept a rollover program. On a scale of 1 to 4 with 4 as the most important, rate adequacy registered an average of 3.86, compared to 3.93 in the previous survey. Unlike in the 2012 and 2011 survey when premium potential landed the second spot, the 2013 survey saw lines of business ranking second with an average of 3.07.
- When considering new programs, insurers surveyed said profitability and financial stability are the main factors they look for. When deciding whether to be involved in a new program, 89 percent of the carriers polled say the threshold premium amount that they look for is more than $1 million.

Market Analysis

The TMPAA and Advisen performed an analysis of the program business in the United States and estimated the total market size for the insurance program administration sector for 2010, 2011, and 2012. The estimated total market in 2010 was $22.6 billion and 1,900 programs, while the estimated total market for 2011 is $24.7 billion and 2,000 programs. We estimate that the total market grew to $27.4 billion with 2,075 programs in 2012.

Details on how these numbers were generated are provided in the sections below.

Analyses Conducted

Two kinds of analyses were conducted for **"The TMPAA State of Program Business Study 2013"** survey. One is the survey response analysis which looked into the responses of the 190 program administrators who participated in the poll. The other is a comparison of the responses to the 2012 and 2013 surveys.

Survey Response Sample

The TMPAA and Advisen conducted an annual survey of the program administration market. The 2011 survey reported on 2010 business results, the 2012 survey reported on 2011 business results and the 2013 survey reported on 2012 business results. The surveys included responses from program administrators and carriers.

The program administrators responded to questions about their program count range, PA-associated employee count range, gross revenue range and the range of gross written premiums they administered. In 2011, 92 survey responses were received from more than 75 different program administration firms. The difference between the number of surveys and distinct program administration firms reflects the processes used to remove duplicate responses. Data from the 2011 survey shows that these firms administered 284 programs with premiums of $3.2 billion in 2010. This rose to $8 billion in 2012 among 190 survey participants representing 165 distinct companies. This increased further to $9.3 billion among 214 survey participants representing 198 distinct companies in 2013.

Similarly, the analysis shows an increase in premiums for insurers polled. The total premium reported by insurers increased by almost three-fold from $1.5 billion in the 2011 survey to $5.7 billion in the 2012 poll and 10.7 billion in the 2013 poll.

Method Employed to Estimate the Total Market

Advisen matched the 2011, 2012, and 2013 survey responses to the accounts provided by the TMPAA. It then consolidated the answers and transformed ranges to appropriate values. After that, it calculated the average premium per program by program count, average ratio of premium to revenue ratio and average premium per employee. It also calculated these ratios for different program count ranges and premium size ranges. These ratios were then checked to evaluate whether they are reasonable. Outliers which could skew the final results were removed.

Advisen de-duped the accounts to identify unique companies and applied these ratios to all accounts in the list provided by the TMPAA. Based on the ratios for each company, Advisen estimated the premium administered by the company. After that, it summarized the premiums of the subsidiaries and assigned the total premium to the ultimate parent company. For public companies such as Aon Corporation and Arthur J. Gallagher & Co., Advisen examined their SEC filings and financial statements to gather information about the premiums they administered.

In addition, Advisen consolidated the 2011, 2012 and 2013 survey responses from insurers and estimated the total market based on the data they provided. Finally, it compared the total premium values which were generated by different methods and ratios, and selected the number which best represents the data.

To develop an independent estimate of the growth in the market, we compared the program counts and premium sizes of the 2013 responses to those provided in 2012. We then examined the self-reported premium 2011 to 2012 premium growth numbers and compared them to the premiums reported in those two years. In general, we found these premium growth numbers to be reasonable.

We then tested the premium growth numbers to evaluate whether they varied materially by the size of the administrator based on premiums administered. We were interested in whether smaller program administrators grew more or less rapidly than larger administrators. Interestingly, we found no discernible difference in the growth rates among different sized administrators. For that reason, we were comfortable taking a straight average of the reported growth rates across all administrator respondents.

Finally, we compared the number of programs reported by respondent in 2012 to those reported in 2013. We found in the aggregate that there was a modest growth of 3.5 percent between the two years.

Program Administrators

The TMPAA defines Program Business as insurance products targeted to a particular niche market or class, generally representing a book of similar risks placed with one carrier. Administration is done through Program Specialists who have developed an expertise in that market or class. Administrative responsibilities are negotiated between the Specialist and Carrier, but would include underwriting selection, binding, issuing, billing, and often times marketing, premium collections, data gathering, claims management/loss control and possibly risk sharing. Program Specialists typically target their niches through differentiation either in product, risk management services, delivery mechanism or price. Specialists can distribute these programs on a retail, wholesale, or direct basis.

Number of Administrators in the U.S.

"The TMPAA State of Program Business Study 2013" found that there are 1,000 organizations in the United States that meet the definition of program administrator laid out by the TMPAA – a slight increase from 950 administrators recorded in the 2012 survey.

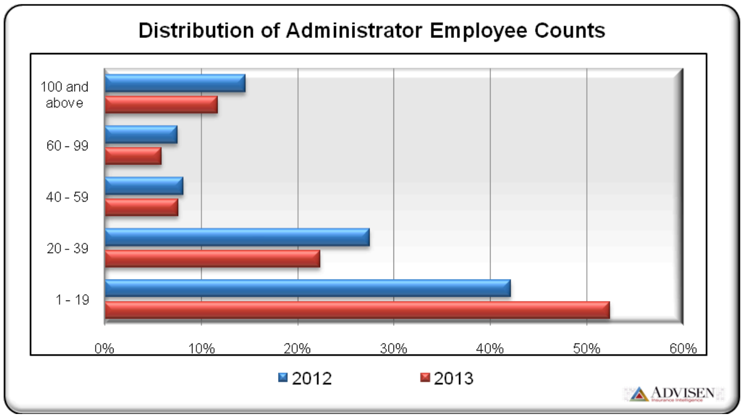
Demographics

The sample size for the TMPAA State of Program Business Study has been increasing over the last three years. From 92 respondents in 2011, the number of participants rose 190 in 2012. For the 2013 survey, 214 individuals from 198 distinct companies participated in the online survey – an increase of 13 percent over the prior survey.

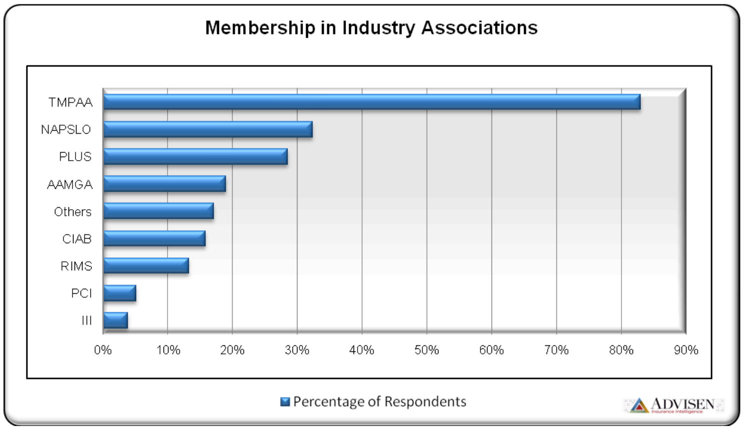
Survey participants vary in terms of number of employees, number of programs administered, revenues, and gross premiums written. This variation is crucial to understanding specific details about the respondents' views and practices.

In analyzing the survey results, participants were segmented into three groups based on premium volume. The smaller companies are those with gross premiums of up to $20 million. The mid-sized firms are those with gross premiums of between $20 million and $75 million, while the larger companies have gross premiums of more than $75 million.

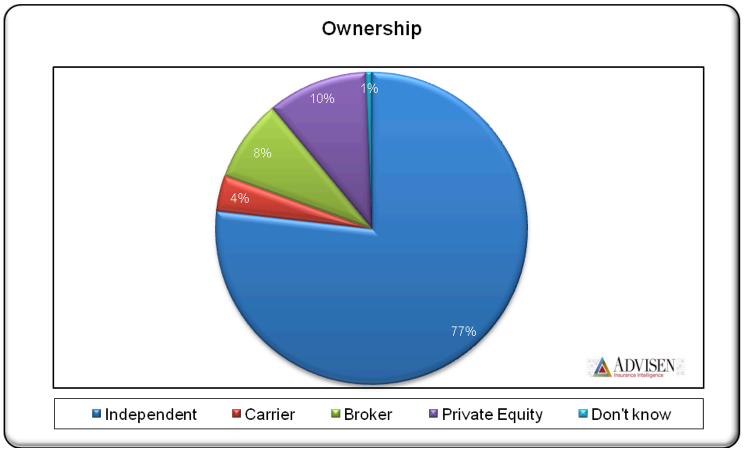
As with the 2012 survey, the majority of program administrators polled for the 2013 survey are from relatively small firms with less than 60 employees. The market reflects the 70/30 rule: about 70 percent of administrators have fewer than 60 employees while firms with more than 60 employees account for about 30 percent of the market.



More than 80 percent of the program administrators surveyed say they are members of the TMPAA. This is down slightly from prior years as we sought responses from more non-member organizations. More than one-third of the respondents are part of the National Association of Professional Surplus Lines Offices, Ltd. (NAPSLO), a national trade association representing the surplus lines industry and the wholesale insurance marketing system. As with the previous survey, one-fourth of those surveyed say they are members of the Professional Liability Underwriting Society (PLUS), while almost one-fifth are members of the American Association of Managing General Agents (AAMGA). Other program administrators reported memberships in the Council of Insurance Agents & Brokers (CIAB), the Risk and Insurance Management Society, Inc. (RIMS), the Property Casualty Insurers Association of America (PCI), and the Insurance Information Institute (III).

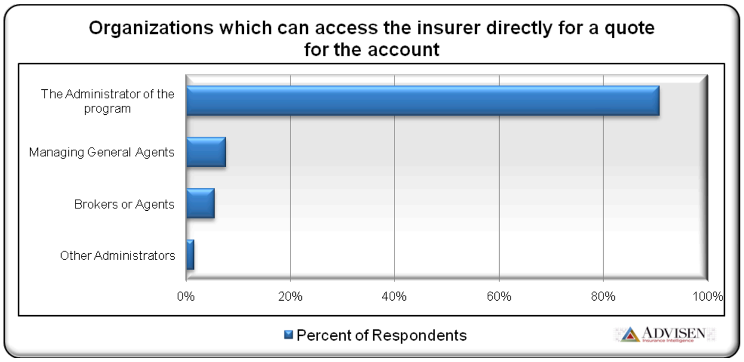


In terms of ownership, three-fourths of the administrators surveyed reported being owned by independent companies. Ten percent says they are owned by private equity firms, 8 percent by brokers, and 3 percent by carriers.



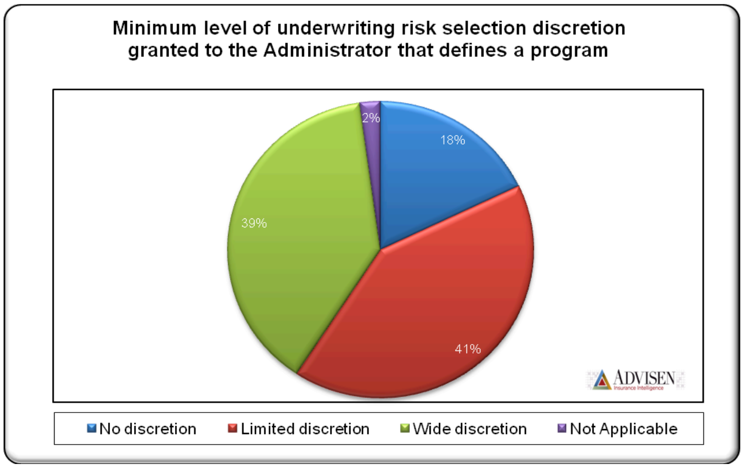
Program Definition

One of the frequent issues facing TMPAA and its members is what constitutes a "program". To shed light on this issue, we asked a series of questions about program definition. For example, some believe that in a program the administrator should have the sole right to issue a quote for their program carrier partner. Administrators were asked which organizations should be able to access the insurer directly for a quote for the account if there is an account that fits the guidelines of a program. The vast majority of the respondents said the administrator of the program should have the sole right to issue a quote for an account that fits the guidelines of their program. A small number cited managing general agents, brokers or agents, and other administrators.

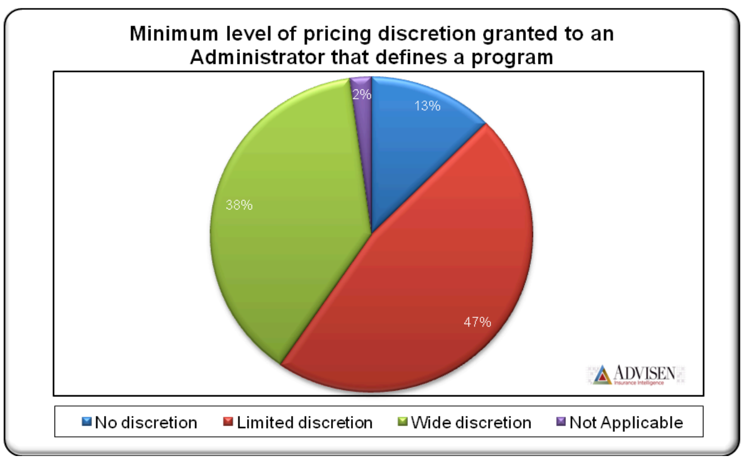


The survey looked into the minimum level of underwriting risk selection discretion granted to the administrator. There were four response options given: No discretion (Administrator has a closely defined set of guidelines – all else referred.); Limited discretion (Administrator has a loosely defined set of guidelines – others are referred.); Wide discretion (Administrator has wide discretion with very few referrals); and Not applicable (This should not be included in the definition.).

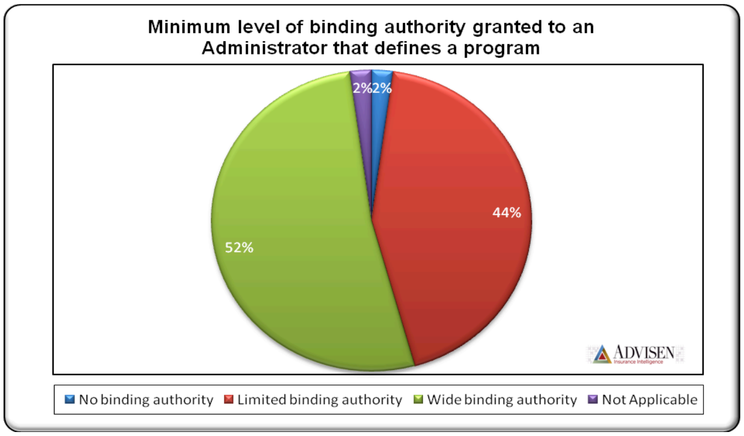
In terms of the minimum level of underwriting risk selection discretion granted to the administrator, 41 percent of the respondents believe there should be limited discretion (loosely defined set of guidelines), while 39 percent say wide discretion (wide discretion with very few referrals) is appropriate. A fifth of the respondents say no discretion (closely defined set of guidelines), while the remaining 2 percent says not applicable.



Asked about the minimum level of pricing discretion granted to an administrator, nearly half of the respondents say there should be limited discretion (loosely defined rating plan). On the other hand, 38 percent of those polled believe that there should be wide discretion (wide pricing discretion with very few referrals). A smaller number go for no discretion (closely defined rating plan).



Administrators polled have opposing views when it comes to the minimum level of binding authority granted to an administrator. Half of the respondents believe that there should be wide binding authority Administrator can issue quotations on accounts with very few referrals.). An almost equal percentage feels that there should be limited binding authority (Administrator can issue quotations on accounts fitting well-defined guidelines.).



There seems to be a general agreement on what constitutes a program. The recurring themes among written responses are "specialization" and "niche." For one administrator surveyed, "A program should have something that differentiates it from others or generalists ... a specific risk selection, pricing, coverage, risk taking, or some other differentiating factor." Another respondent said "Niche class of business not widely eligible in the "standard" markets, where the PA brings a unique expertise to the underwriting, marketing and distribution processes."

Commenting on the question, one administrator said, "To be considered a Program the administrator should be doing the quoting, binding, and issuance. If they are not doing the issuance, it does not seem like a program to me, they are more of a broker."

For another respondent, "A program is developed and maintained by the administrator - They should be able to have a wide authority on rate and form. The carrier partner should be able to perform audits to determine rate and acceptability. The program administrator should have a file and use method with the carrier - the carrier should be able to reject a coverage form that the administrator files with the carrier, but the administrator can begin using immediately."

Size of the Program Administration Market

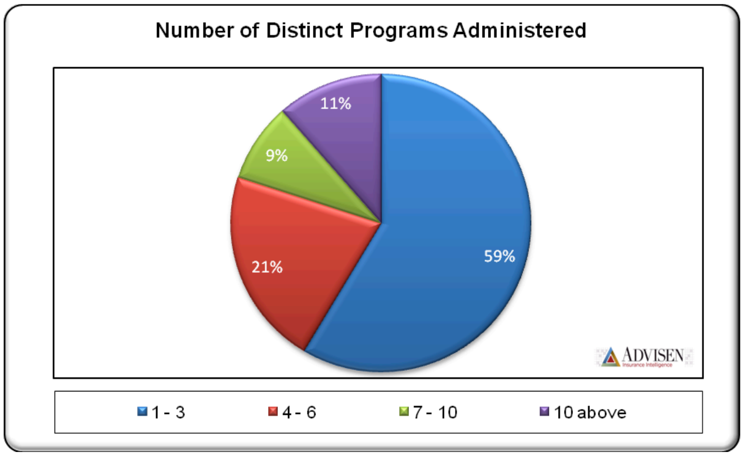
The program business in the U.S. is pegged at $27.4 billion in premiums in 2012 – a 10.8-percent increase from the $24.7 billion estimated in 2011.

In the 2013 Edition of Best's Aggregates & Averages – Property/Casualty book, they provide Cumulative by Line Underwriting Experience exhibits. This includes Direct Premiums Written. While not all programs provide Commercial Lines insurance, the vast majority do. In this survey, the growth of the overall commercial insurance marketplace is compared to that of the programs business.

The 2012 Direct Premiums Written for Commercial Lines was $252 billion in 2012 which compared to $244 billion in 2011. This shows a 3.3-percent growth which compares to the 10.8-percent growth we report for Programs. This clearly shows that the program business is growing more quickly than the overall commercial insurance marketplace. It also indicates that roughly one in ten of the dollars spent on commercial property/casualty insurance are through programs.

In terms of programs administered, there is an estimated 2,075 individual programs – an increase of 3.5 percent from the 2,000 individual programs estimated for 2011.

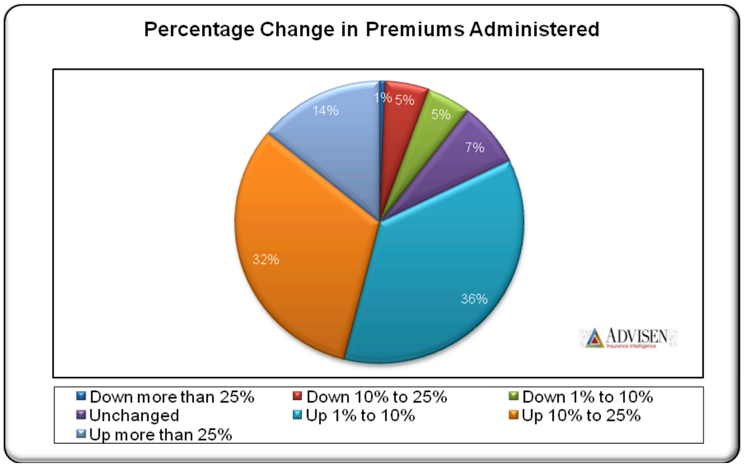
As with the previous survey, a majority of those polled are small firms in terms of the number of distinct programs they administer. More than half of the respondents administer only one to three distinct programs, while one-fifth administer 4 to 6 programs. The remaining 20 percent administer more than seven programs.



Administrators Paint Rosy Picture of the Program Business

Program administrators continued to paint a rosy picture of the program business.

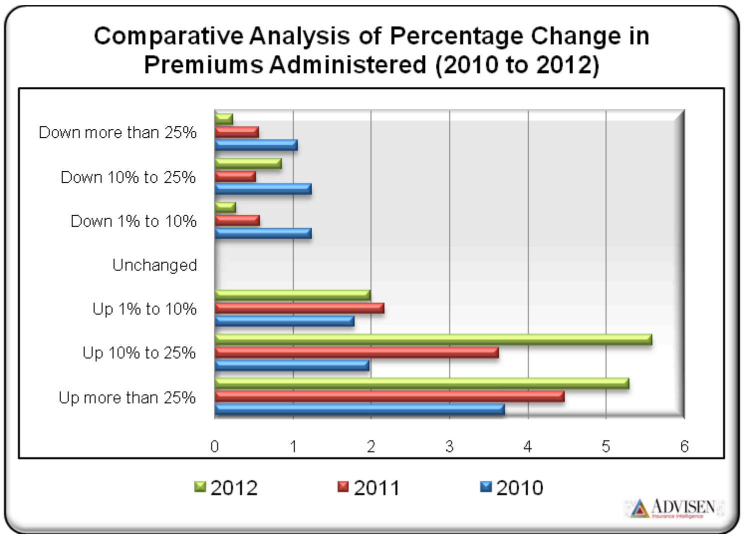
The majority of program administrators surveyed reported increases in premium volume in 2012. Nearly 40 percent recorded increases of between 1 and 10 percent, while a third saw increases of between 10 to 25 percent. Fourteen percent said premium volume rose more than 25 percent in 2012. Ten percent of the respondents said their premiums declined, while the remaining 7 percent reported no change.



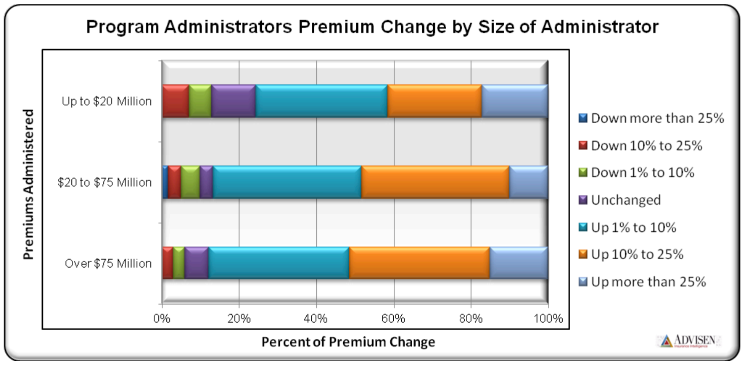
It is important to note that over the three-year period, an analysis of survey results point to an increasing number of administrators reporting increases of between 10 to 25 percent and more than 25 percent. On the other hand, the number of respondents reporting premium declines is on a downward trend.

The number of respondents who reported increases rose from 52 percent in 2010 to 72 percent in 2011 to 82 percent in 2012. The number of program administrators who saw no change in premiums administered dropped by 50 percent between 2011 and 2012. The number of those who registered declines of between 1 to 10 percent and more than 25 percent were also cut by half. It is only in the "down 10 to 25 percent" bracket where a 2-percent increase was seen. Overall, the average increase reported for 2012 was 10.8 percent. This compares to 4 percent in 2010 and 9 percent in 2011.

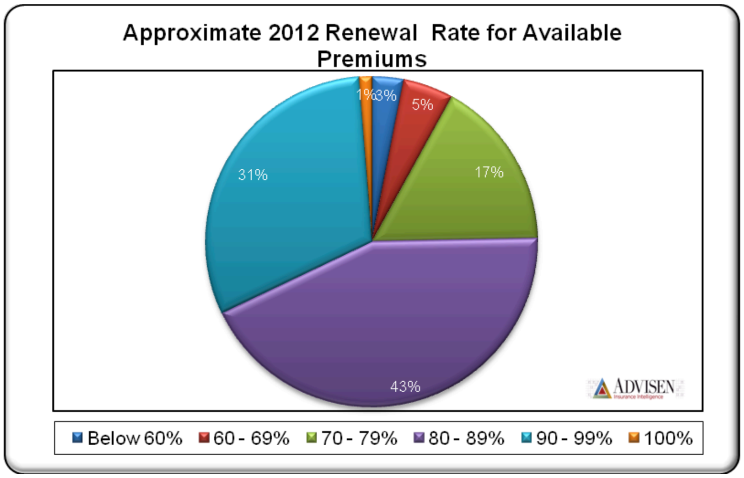
This trend reflects the continuous above average performance of the program business amid the soft market that persisted for the property and casualty insurance industry.



All premium brackets reported increases in premium, but those with over $75 million in premiums had the greatest proportion of respondents with increases. In the previous survey, the smaller companies or those with premiums of less than $20 million held the greatest proportion of respondents with increases.

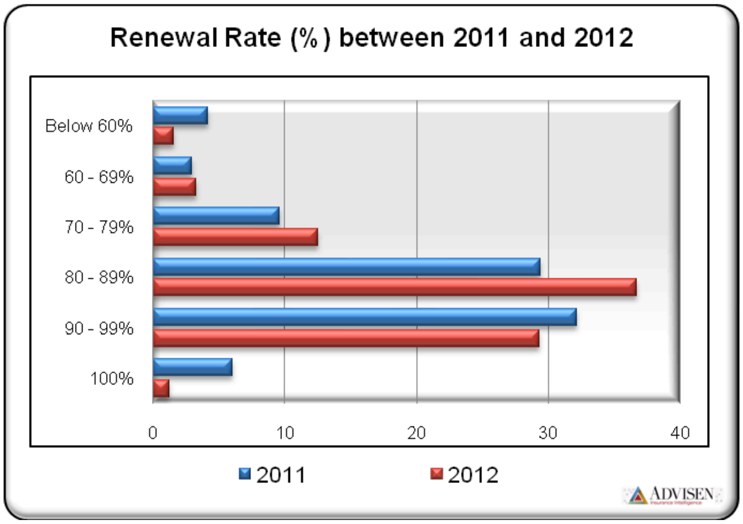


As with the previous survey, 75 percent of the administrators surveyed enjoyed high renewal rates of between 80 and 100 percent.

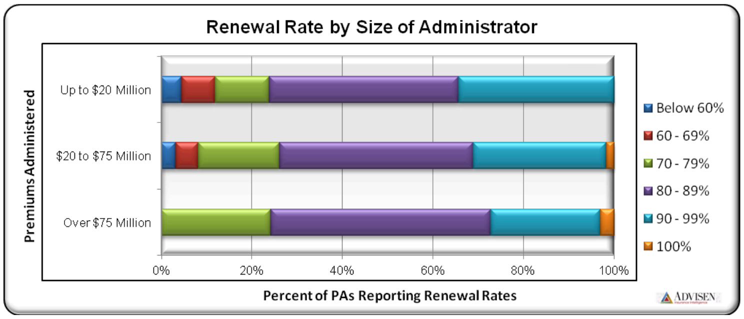


The average rate of renewals remained at 84 percent from 2010 to 2012. While the number of administrators reporting 100 percent and 90 to 99 percent renewal rates dropped, significant increases were seen in the 80 to 89 percent and 70 to 79 percent brackets. Those with renewal rates of less than 60 percent also dropped significantly.

It should be noted, however, that despite high renewal rates, the current book of business continues to present a challenge to both program administrators and insurers. With a renewal rate of 90 percent, for example, the pressure remains for administrators to write new business equivalent to 10 percent of their in-force book each year just to stay even.

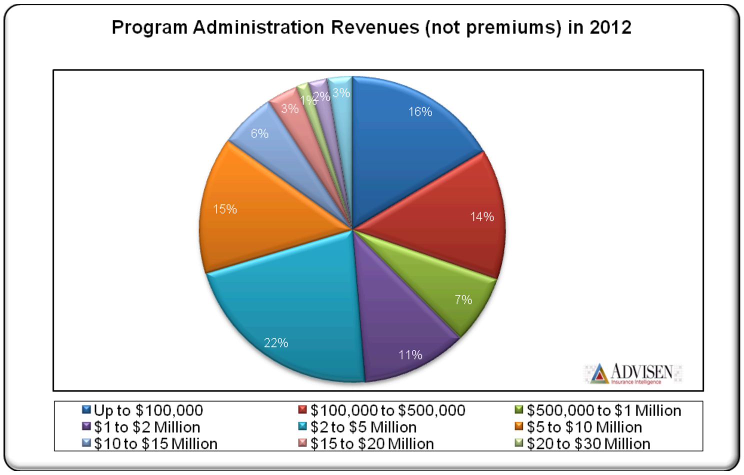


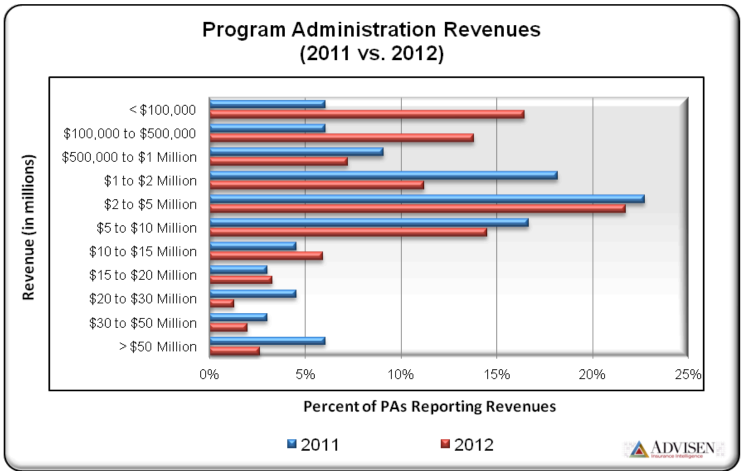
Unlike in 2011 when mid-sized and smaller firms registered higher retention rates, the larger firms reported higher retention rates for 2012.



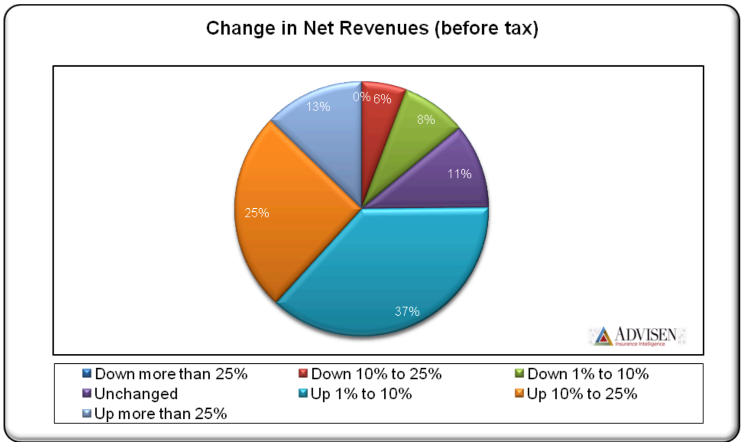
Revenue

Sixty-two percent of the responding program administrators are from small firms with gross program administration revenues of less than $5 million. This compares to 58 percent in the previous survey. Consistent with the 2012 poll, a third of administrators polled in 2013 reported having revenues of between $5 million and $30 million, while the remaining 10 percent reported revenues of more than $30 million. Even at that level, program administration firms, as measured by revenues, tend to be fairly small.

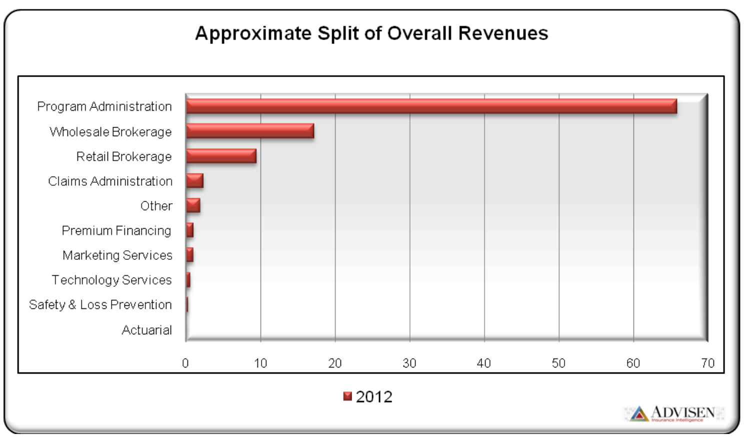




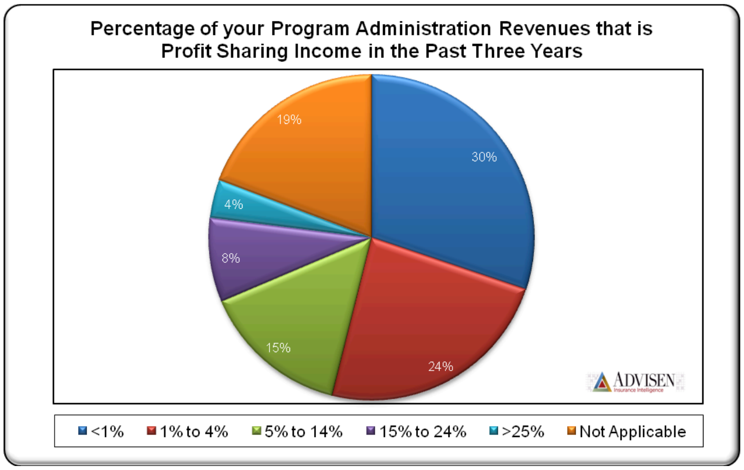
Thirty-five percent of the TMPAA members polled said their revenues increased by 1 to 10 percent in 2012, while 27 percent reported increases of between 10 to 25 percent. Fourteen percent of the respondents recorded increases of more than 25 percent. A fifth of the survey participants said their revenues were unchanged, while the remaining respondents saw revenues dropped between 1 to 25 percent.



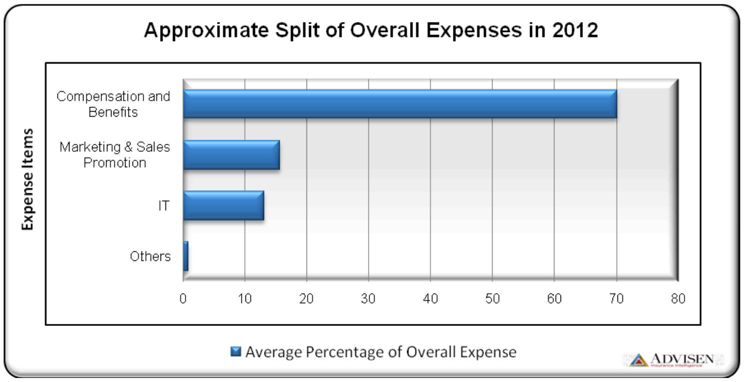
As with the previous survey, the biggest segment in terms of the approximate split of overall revenues was program administration. Wholesale brokerage, retail brokerage, and claims administration also represent significant portions. It should be noted though that a comparison of 2012 and 2011 figures show a decline in percentages for all revenue sources. Among the sources of revenue, actuarial was the smallest at less than 1 percent.



One way that insurers align their interests with program administrators is through profit sharing programs. If the program is profitable, they both share in its success. Asked about what percentage of their program administration revenues is profit sharing income for the period 2010 to 2012, the a third of the administrators polled said up to 1 percent. One-fourth of the respondents said 1 to 4 percent, while 15 percent said 5 to 14 percent. Eight percent responded 15 to 24 percent, while 4 percent said more than 25 percent. The remaining 19 percent said the question is not applicable to them.

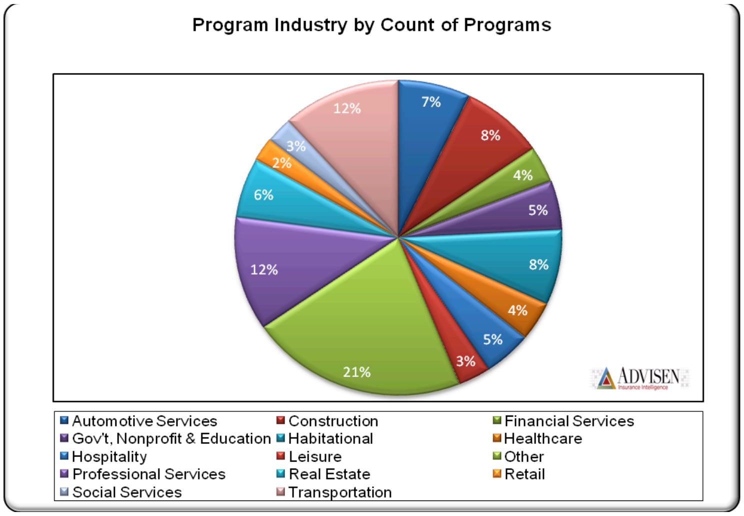


In terms of expenses, the largest portion went to compensation and benefits. Marketing and sales benefits occupied the second spot, while IT came third.

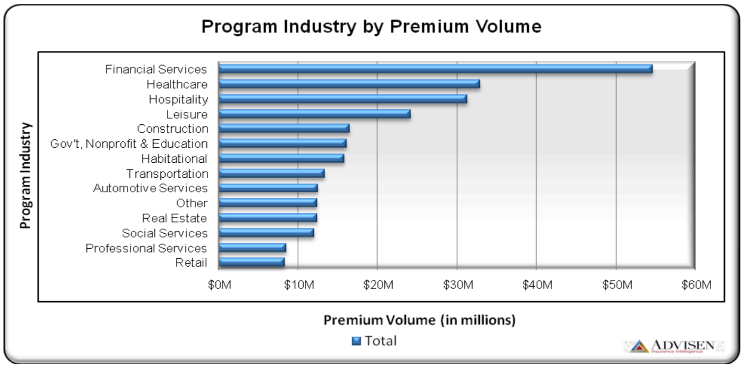


Program Industry

As with the previous poll, survey respondents had more programs serving the professional services and transportation industries. Construction and habitational are also significant areas.



Unlike in 2011 when the largest volume of premiums was recorded in the government, nonprofit and education; construction; and transportation industries, the program administrators polled reported the largest premiums volumes in the financial services, healthcare, and hospitality industries. On the other hand, the smallest volumes of premiums were recorded in professional services and retail.

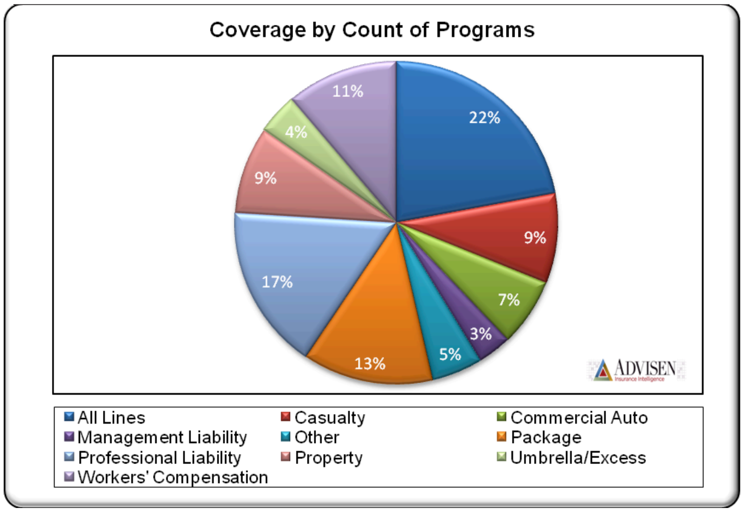


Coverage

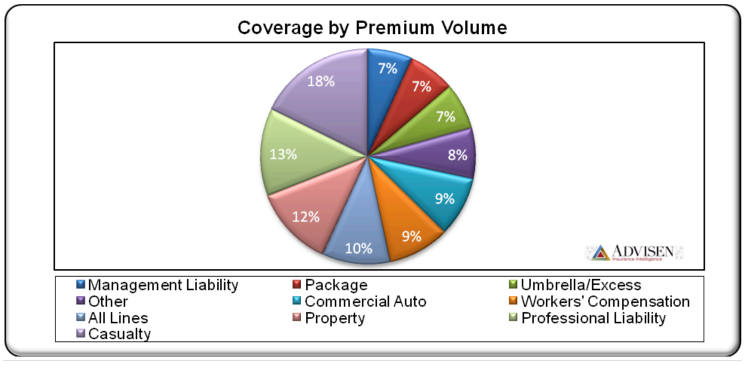
To understand whether program administrators tended to offer single more specialized industry-specific insurances or seek to respond to a broader set of insurance needs, the survey looked into coverages.

The insurance coverage combinations included in the survey matched those used to analyze the prior survey results. All lines is generally considered to include the full suite of insurances needed by a business, while Casualty generally includes general and automobile liability, as well as umbrella and excess liability coverages. Professional liability includes the errors and omissions coverages tailored to the specific professional exposures of an organization (e.g. an accounting firm). Management Liability encompasses such lines of business as Directors & Officers Liability, Employment Practices Liability, Fiduciary Liability, as well as ancillary Lines of Business such as Crime. Workers' compensation covers work-related injuries and illnesses. Packages would include a variety of Lines of Business (e.g. property, general liability, umbrella, etc.) offered within a single policy.

A fifth of the program administrators offer a complete suite of coverages to address their industry's needs. This compares to 29 percent in the prior survey. The rest of the programs are focused on responding to the specific coverage needs of their clients and serve as one-stop shops for particular industries. Seventeen percent offers Professional Liability, while 13 percent offers Package. As with the previous survey, the smallest numbers were recorded for Management Liability and Umbrella/Excess.

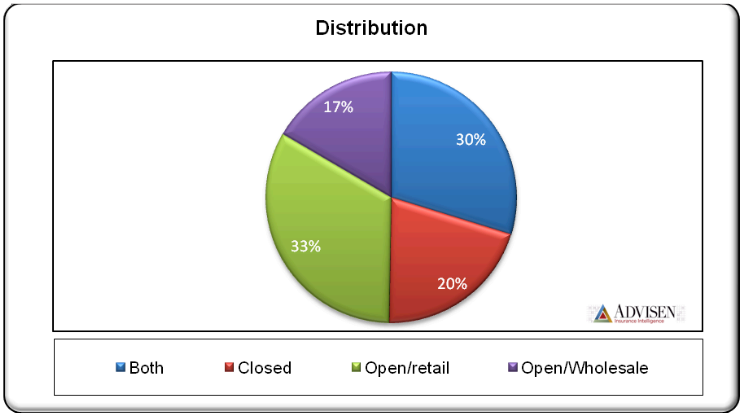


In terms of premium volume, the largest volumes were recorded in Casualty, Professional Liability, and Property. The lowest volumes were reported for Umbrella/Excess, Package, and Management Liability.

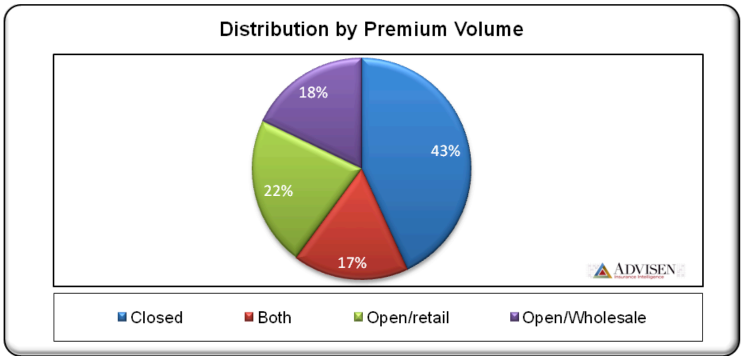


Distribution

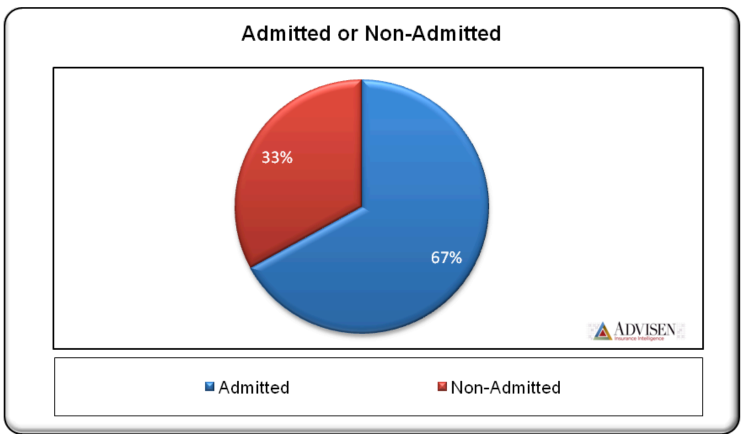
Programs are distributed on a retail or wholesale basis. As with the previous survey, 0ne-third of the survey respondents say they distribute programs on a retail basis, while another third said they use both distribution methods. Twenty percent of the respondents said they use a closed distribution method, while the remaining 17 percent said they use the open/wholesale method.



In analyzing distribution in terms of premium volume, survey results show that the closed distribution method is used in the highest level of premium volumes.

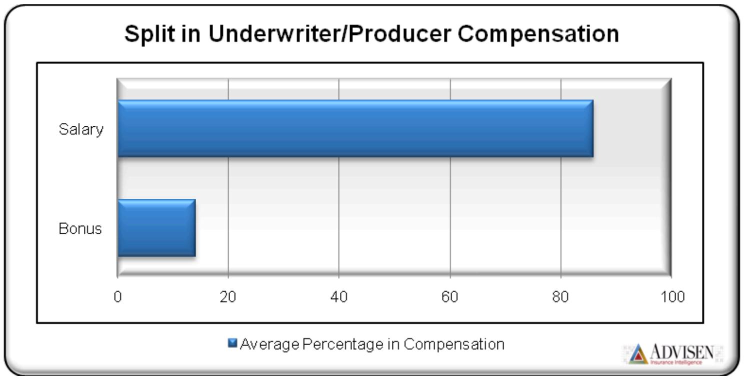


Nearly 70 percent of the programs are offered through admitted insurers, while the remaining third are through non-admitted insurers.

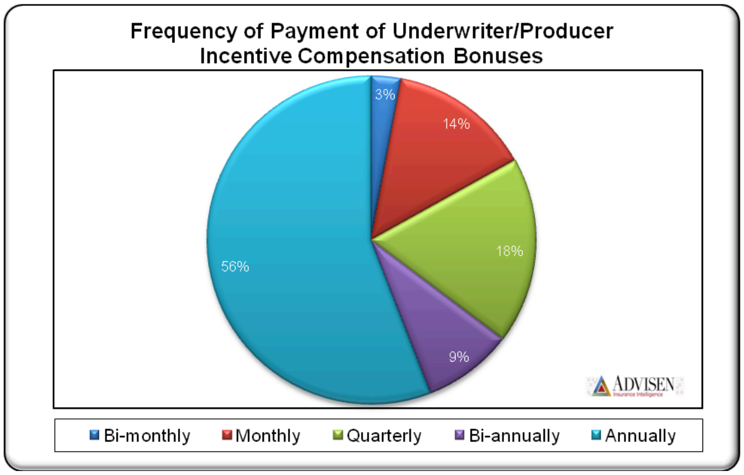


Compensation

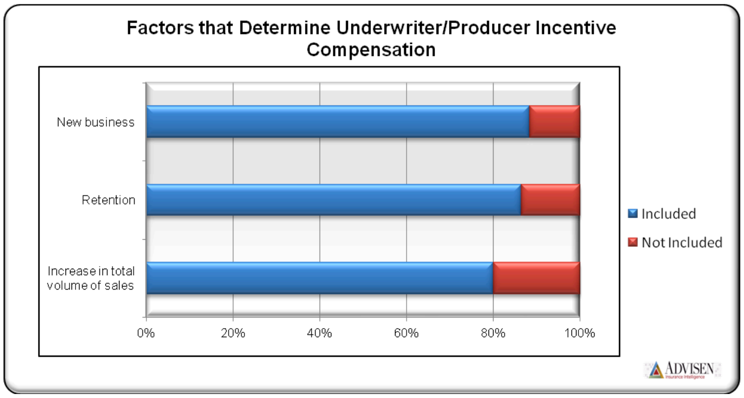
The survey looked into the compensation-related practices of program administrators. In terms of the split in underwriter/producer compensation, more than 80 percent come in the form of salaries, while less than 20 percent comes in the form of bonuses.



More than half of the program administrators polled said their underwriters/producers are paid incentive compensation bonuses on an annual basis. One-fourth of the administrators pay quarterly, 14 percent monthly, 9 percent bi-annually, and 3 percent bi-monthly. The larger program administrators tend to pay on an annual basis.



According to administrators polled, the most important factor they consider in deciding on underwriter/producer incentive compensation is new business.

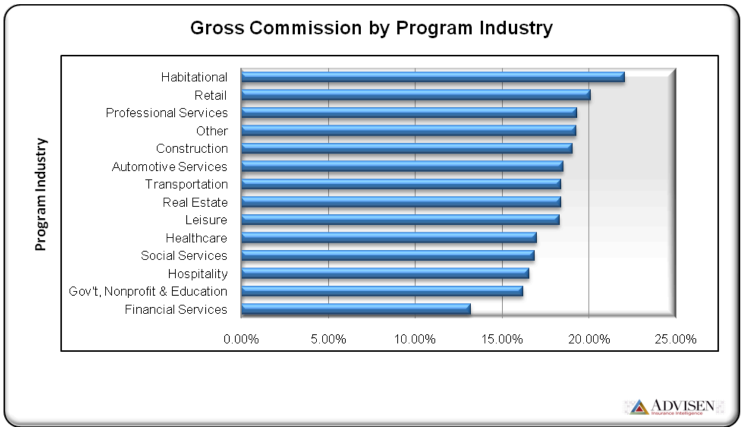


Commenting on the issue of giving commissions to underwriters, one respondent said “we use a Balanced Scorecard approach which also takes into consideration items such as internal and carrier audits, effective rate change and customer surveys including promoter scores.”

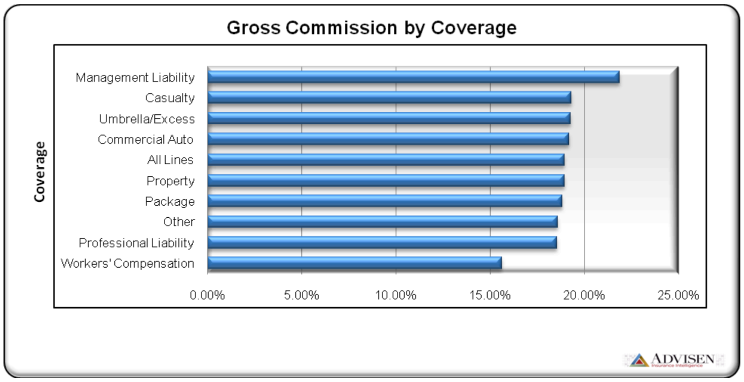
Another respondent said, “We use independent agents to supply our new business. They are paid premium based commissions. Because sales of non-standard auto insurance policies (the majority of our business) is so price driven, and due to the nature of producer fees, additional commission does not have a noticeable effect on increasing sales until the levels exceed what we are able and willing to pay in our business model.”

According to one administrator polled, “Sales and growth incentives for underwriters raises potential conflicts as program profitability is a key element to a program’s success and longevity.”

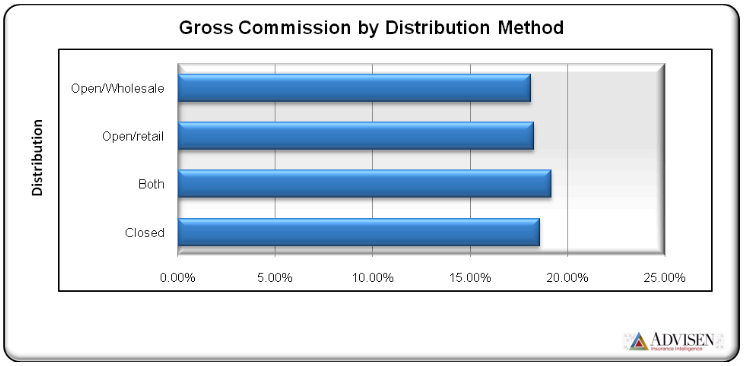
A look into the average gross commission received by carriers shows that average commission rate is highest for programs addressing the Habitational industry at more than 20 percent. High commission rates are also paid in the Retail, Professional Services, and Construction industries. The lowest rates are reported in Financial Services, Government, Nonprofit and Education, and Hospitality.



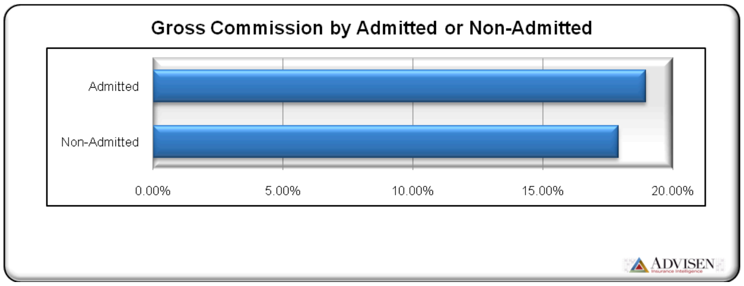
In analyzing average gross commission rate by coverage, responses of administrators show that the highest commission level is paid for Management Liability, while the lowest is paid for Workers' Compensation.



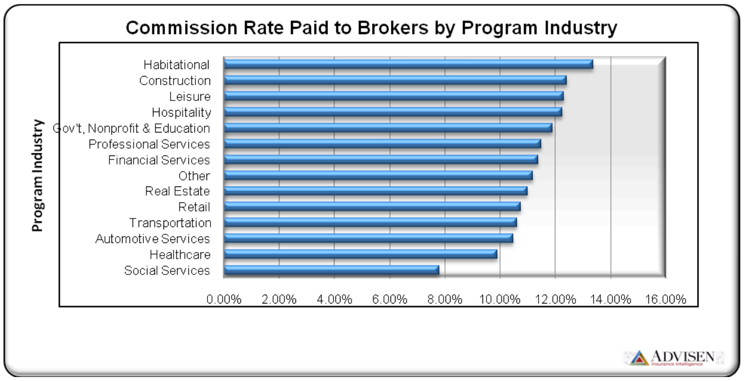
Those who employ both retail and wholesale distribution methods reported the highest average commission rates.



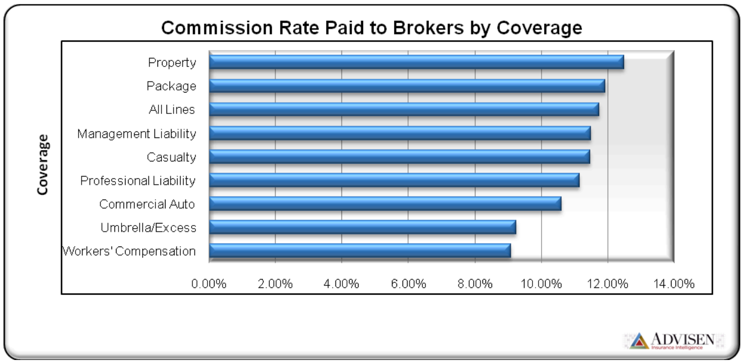
Admitted companies paid slightly higher gross commission rates.



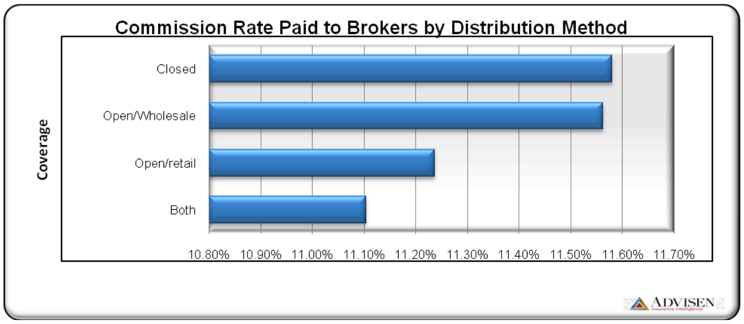
Program administrators were also asked about the average commission rates they pay brokers. Survey results show that the highest levels are paid in the Habitational, Construction, Leisure, and Hospitality industries. The lowest levels are paid in Social Services and Healthcare.



In terms of broker commission rates in the various coverages, the highest levels were reported for Property and Package, while the lowest was recorded in Workers' Compensation.



When it comes to distribution, the levels are fairly uniform, but the highest levels were reported in closed and open/wholesale models.



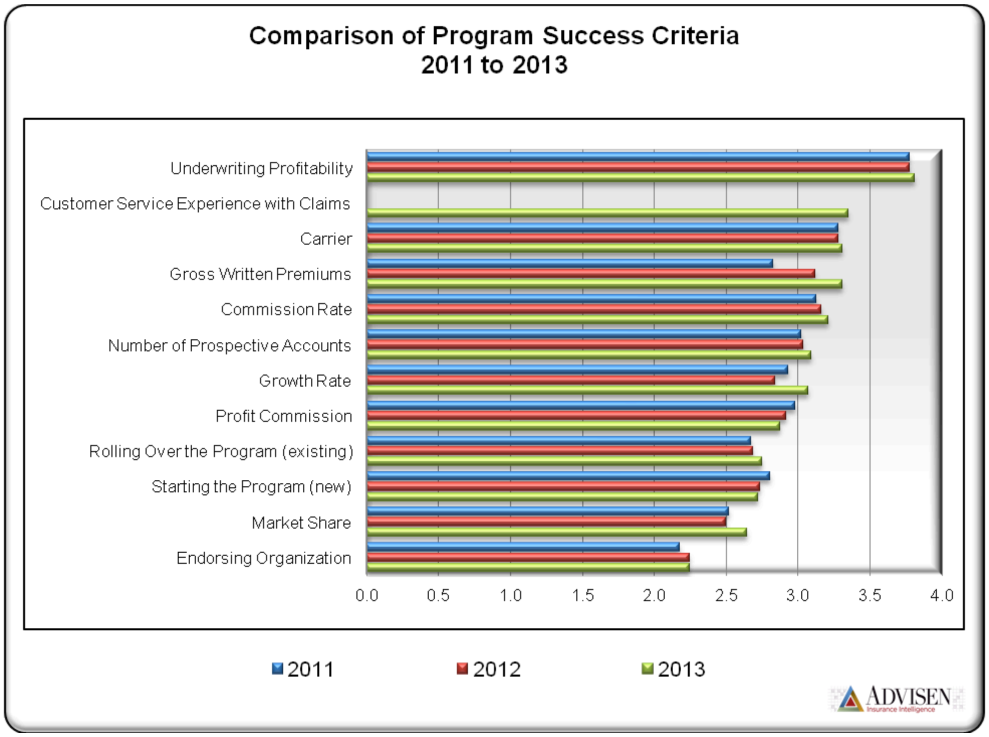
Program Success Criteria

What makes a program successful?

A major factor in building strong partnerships between program administrators and carriers is a clear agreement on what it takes to create a successful program.

As with the previous surveys, program administrators were asked to rank a set of factors crucial to program success using a scale of 1 to 4, with 1 as the least important and 4 as the most important. We created a composite score based on the average of the values provided.

As would be expected, a comparative analysis of the responses gathered from the 2011, 2012, and 2013 surveys showed that underwriting profitability and the carrier remain the most important factor needed to ensure the success of a program. A new factor added in the 2013 survey is customer service experience with claims, which also ranked high.

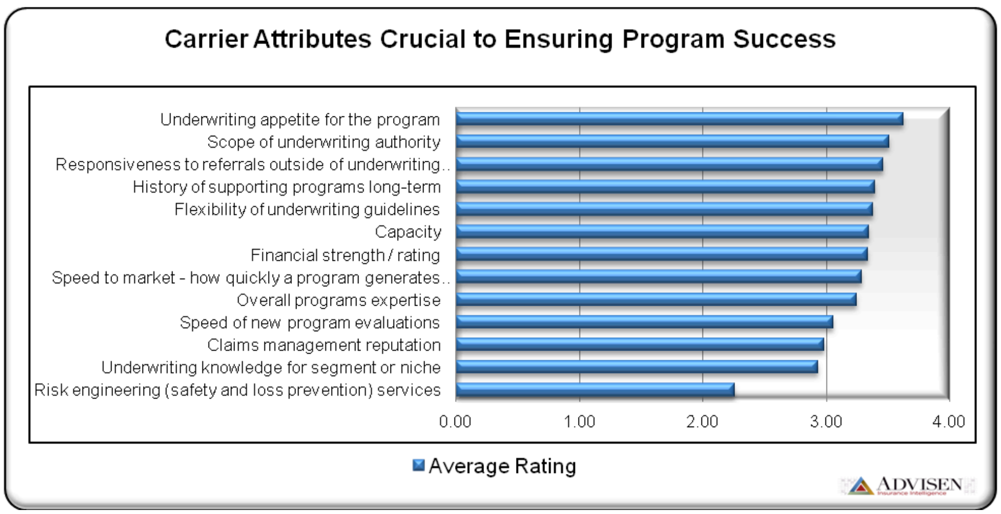


Carrier Attributes

In the 2012 survey, program administrators were asked to identify the carriers they work with and to evaluate the quality of their partnerships with these carriers in terms of being an excellent program partner. To develop a more objective basis for evaluating carriers, we defined a set of carrier attributes to serve as the basis for the evaluation.

For the 2013 survey, the respondents were asked to rate 13 carrier attributes in terms of their importance to a successful program. Respondents were given the option of rating the attributes as Most Important, Important, Not as Important or Least Important. We assigned a scale of 1 to 4, with 1 as the least important and 4 as the most important. We then created a composite score based on the average of the values provided.

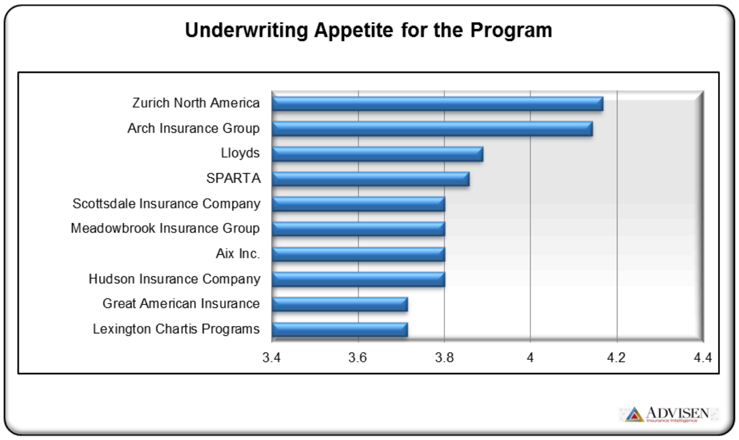
On top of the list are (1) underwriting appetite for the program, (2) scope of underwriting authority, (3) responsiveness to referrals outside of underwriting guidelines, (4) history of supporting programs long-term, and (5) flexibility of underwriting guidelines.

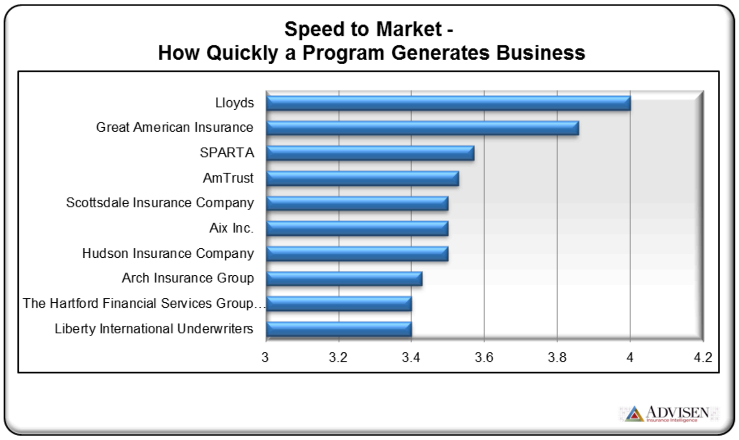


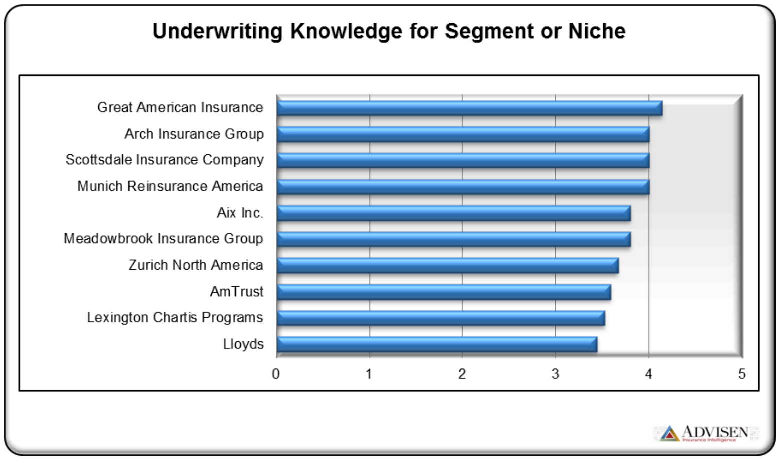
After identifying the most important carrier attributes, the administrators were provided a list of over 60 TMPAA member carriers and asked to rate their top three carriers with which they have programs on a scale of 1 to 5 with 5 as the highest in terms of (a) underwriting appetite for the program, (b) speed to market – how quickly a program generates business, (c) underwriting knowledge for segment or niche, (d) flexibility of underwriting guidelines, (e) responsiveness to referrals outside of underwriting guidelines, (f) referral submission turnaround time, (g) risk engineering (safety and loss prevention) services, and (h) claims management reputation. We then created a composite score based on the average of the values provided. The insurer needed to have at least five respondents rating them for them to be included in the list of top carriers. These rankings reflect only the views of the 130 program administrators who responded to this specific question and include 265 individual ratings covering over 50 carriers. The table below shows the top three carriers for each of the factors.

Carrier Attribute	Top Three Carriers
Underwriting appetite for the program	1. Zurich North America 2. Arch Insurance Group 3. Lloyds
Speed to market – how quickly a program generates business	1. Lloyds 2. Great American Insurance 3. SPARTA
Underwriting knowledge for segment or niche	1. Great American Insurance 2. Munich Reinsurance America 3. Arch Insurance Group (tie score) 3. Scottsdale Insurance Company (tie score)
Flexibility of underwriting guidelines	1. Lloyds 2. Arch Insurance Group 3. SPARTA
Responsiveness to referrals outside of underwriting guidelines	1. Arch Insurance Group 2. Munich Reinsurance America 3. Great American Insurance
Referral submission turnaround time	1. Arch Insurance Group 2. Munich Reinsurance America 3. Great American Insurance
Risk engineering (safety and loss prevention) services	1. Great American Insurance (tie score) 1. Arch Insurance Group (tie score) 3. Zurich North America (tie score) 3. Scottsdale Insurance Company (tie score)
Claims management reputation	1. Great American Insurance 2. Zurich North America 3. Arch Insurance Group

The series of charts below shows the top ten carriers for each of the attributes.






Underwriting Knowledge for Segment or Niche
Great American Insurance
Arch Insurance Group
Scottsdale Insurance Company
Munich Reinsurance America
Aix Inc.
Meadowbrook Insurance Group
Zurich North America
AmTrust
Lexington Chartis Programs
Lloyds
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4
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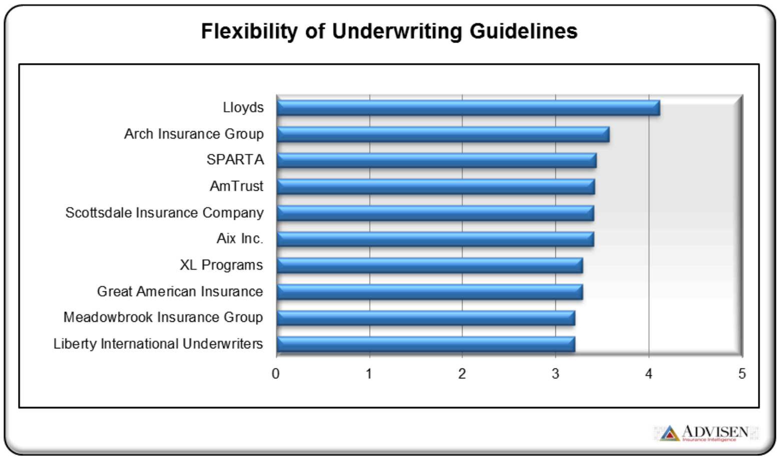
ADVISEN


Flexibility of Underwriting Guidelines
Lloyds
Arch Insurance Group
SPARTA
AmTrust
Scottsdale Insurance Company
Aix Inc.
XL Programs
Great American Insurance
Meadowbrook Insurance Group
Liberty International Underwriters
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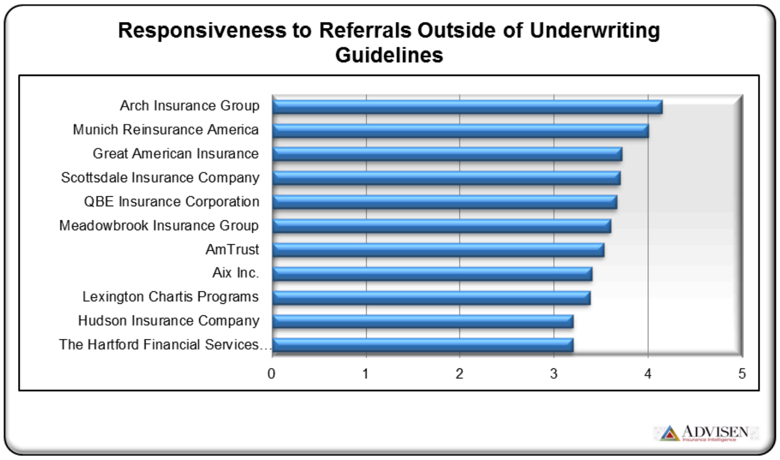
Responsiveness to Referrals Outside of Underwriting Guidelines
Arch Insurance Group
Munich Reinsurance America
Great American Insurance
Scottsdale Insurance Company
QBE Insurance Corporation
Meadowbrook Insurance Group
AmTrust
Aix Inc.
Lexington Chartis Programs
Hudson Insurance Company
The Hartford Financial Services...
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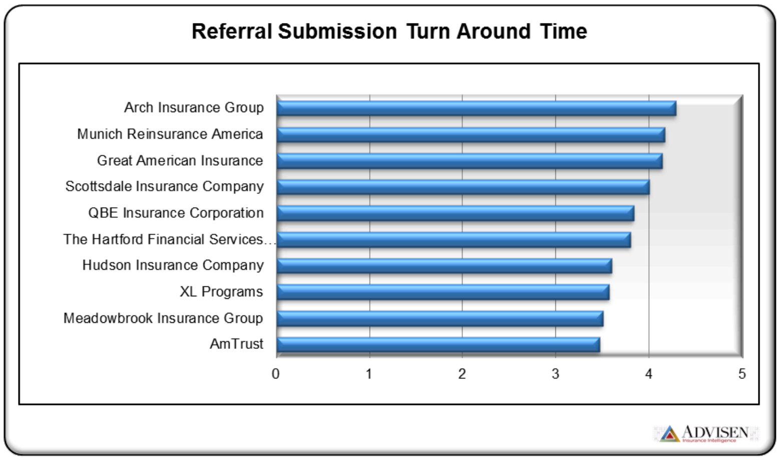
Referral Submission Turn Around Time
Arch Insurance Group
Munich Reinsurance America
Great American Insurance
Scottsdale Insurance Company
QBE Insurance Corporation
The Hartford Financial Services...
Hudson Insurance Company
XL Programs
Meadowbrook Insurance Group
AmTrust
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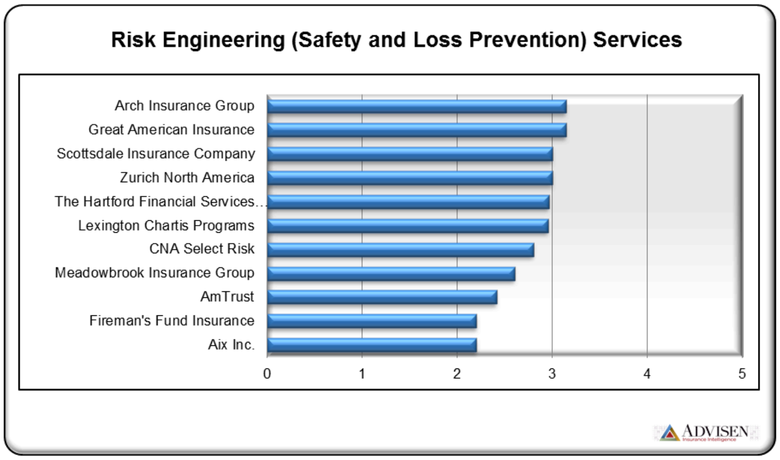
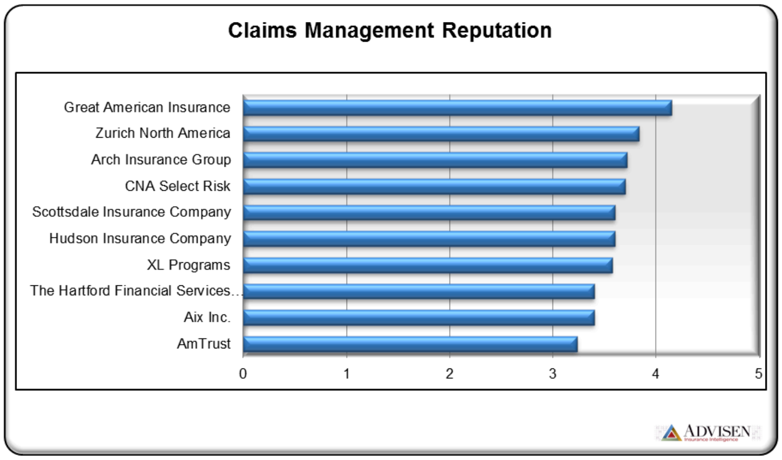
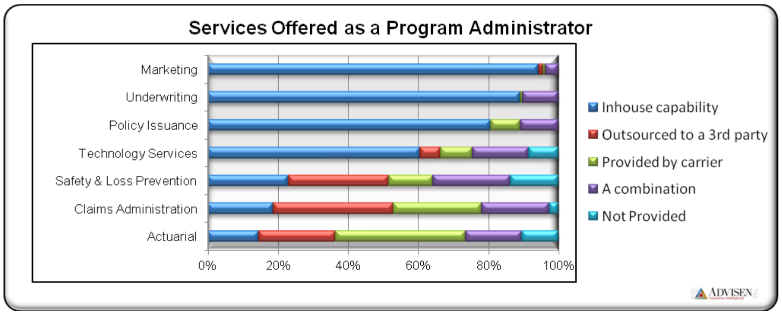




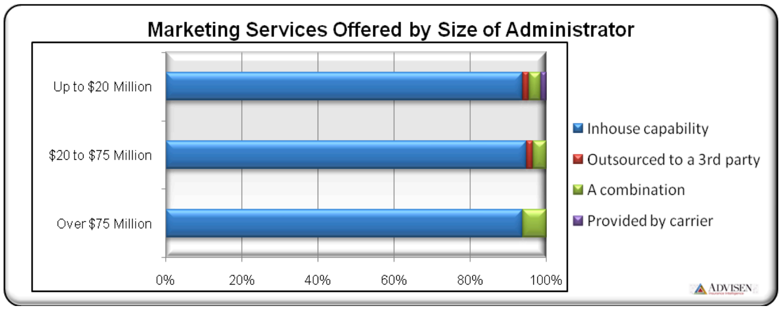
Services Offered

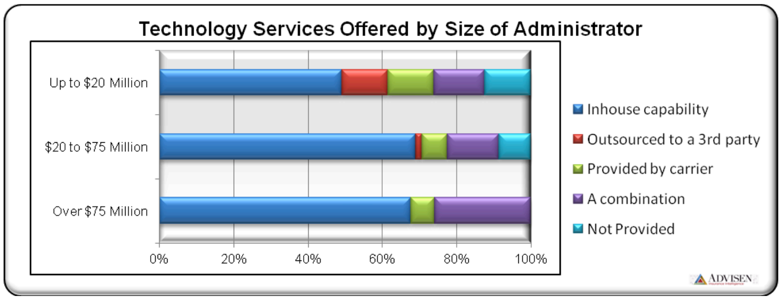
The program business encompasses insurance products targeted toward a particular niche market or class, generally representing a book of similar risks placed with one carrier. Activities under program administration may include marketing, underwriting, policy issuance, technology services, claims management, and actuarial.

Survey results show that marketing, underwriting, policy issuance, and technology services tend to be handled in-house by program administrators. Other services such as safety and loss prevention, claims administration, and actuarial tend to be either provided in-house, outsourced to a third party service provider, and provided by a carrier. Some of the respondents reported employing a combination of these service delivery mechanisms.

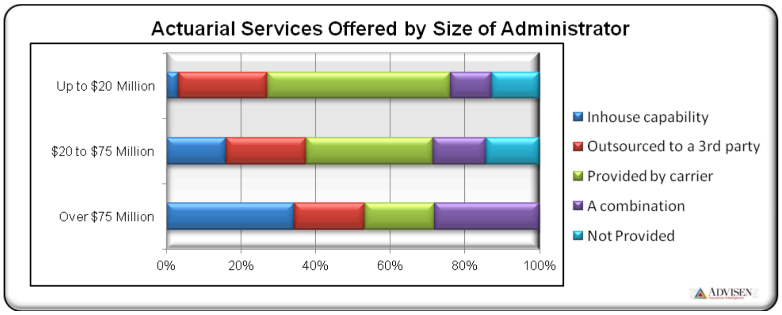


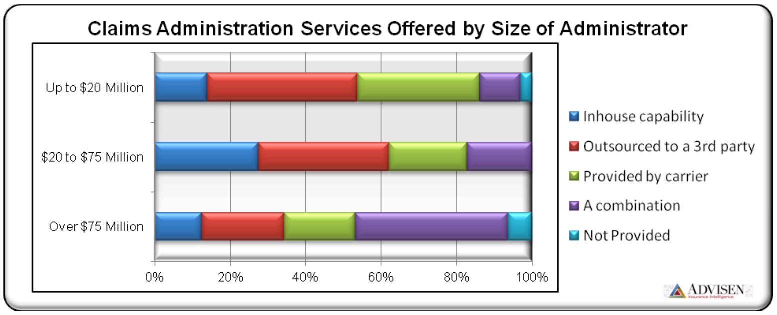
We found it informative to review whether the services provided vary significantly by the size of the administrator. Marketing and technology services tend to be provided in-house across all administrator sizes.

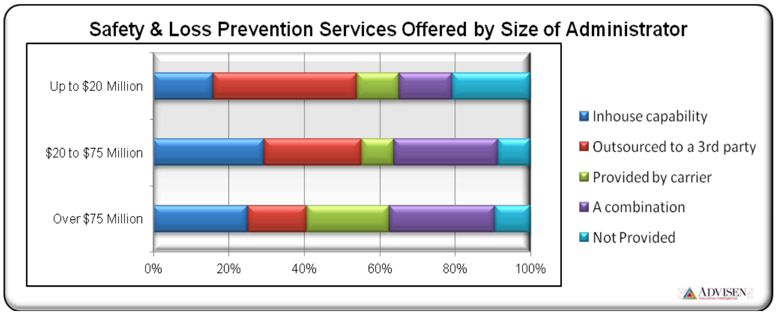




As with the previous survey, we found that mid-sized and larger firms tend to offer a broader range of services in-house, particularly actuarial, claims, and safety and loss prevention.





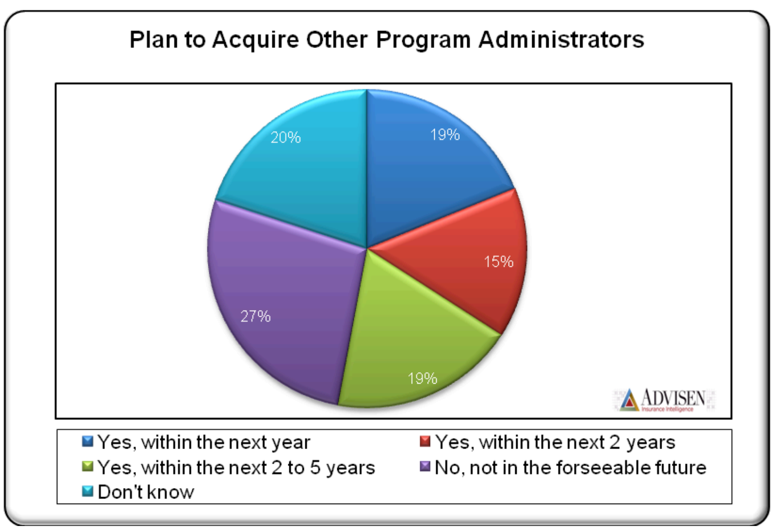


Mergers and Acquisitions

One interesting facet added to the 2012 survey was the topic of mergers and acquisitions in the program space. Even as program administration business continues to offer rosy growth prospects, players are also looking into consolidation to boost revenues as well as to access new markets.

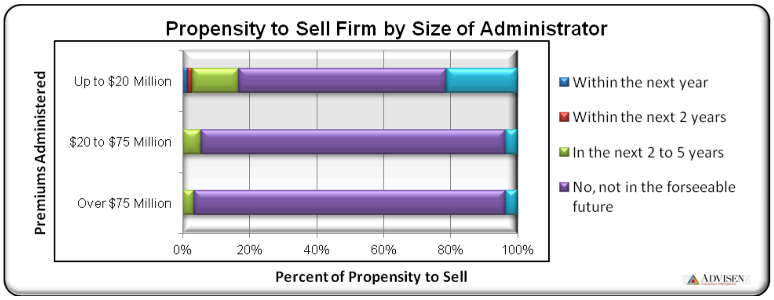
The numbers show that there continues to be a mismatch in supply and demand as buyers significantly outnumber the sellers. This may be indicative that it will continue to be a sellers' market where price multiples are expected to remain high.

The number of administrators planning to acquire other program administrators in the very near future increased from 43 percent in 2011 to 53 percent in 2012. Unlike in the 2012 poll when 40 percent say they do not any acquisition in the foreseeable future, only 27 percent of the respondents said "no, not in the foreseeable future" in the 2013 survey. The number of those who don't know remained the same.

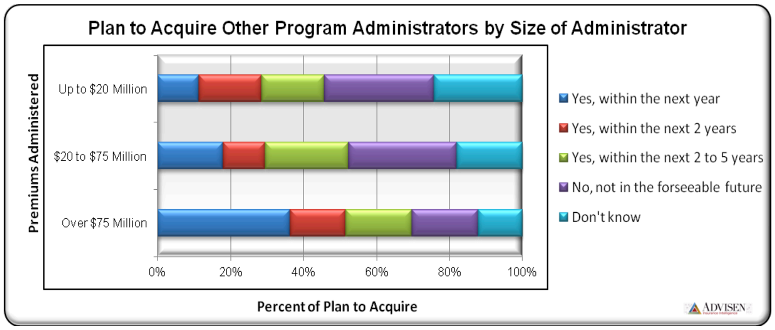


As the number of firms looking to acquire other program administrators increased, so did the number of administrators not planning to sell anytime soon. Compared to 75 percent in the previous survey, the percentage of those who are not considering the idea is now 80 percent. Ten percent of the respondents say they do not know whether their firms plan to sell, while the remaining 10 percent are considering selling their firms.

Consistent with the previous survey, the smaller companies (those with revenue of up to $20 million) are more likely to sell their firms in the next two to five years.



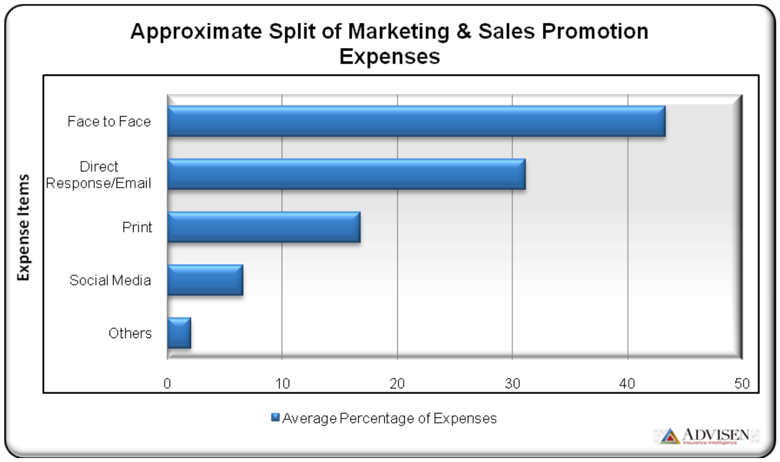
As would be expected, the larger firms (those with revenue of more than $75 million) have a greater expectation of purchasing other program administrators.

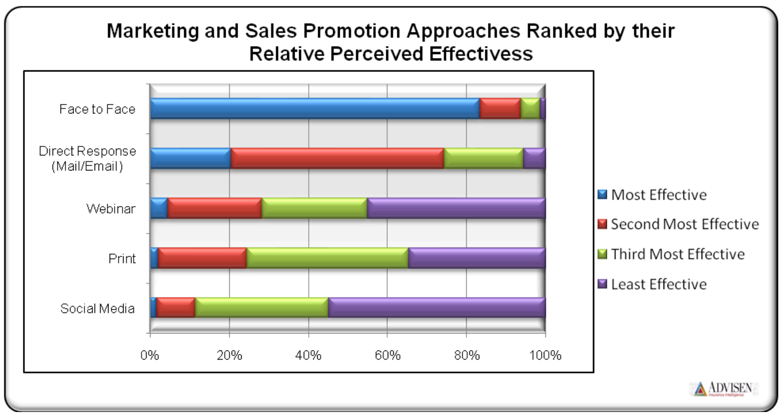


Marketing Practices

Survey results show that marketing ranks second in the expense items of program administrators. It is seen as a crucial factor in the program business.

A look into marketing preferences and practices of administrators show that they are keen to promote the program business and the various programs by conducting marketing activities. Many of the program administrators polled allocate a greater share of their marketing and sales promotion expenses to face to face meetings, which they believe is still the most effective means of promoting their business. The smallest amount goes to social media which, in their view, is the least effective.





Challenges Faced by Administrators

One of the highlights of The **TMPAA State of Program Business Study 2012** is the section on challenges faced by players in the program space.

While the program business has performed better than other businesses in the past years, it is plagued with a number of issues that affect how program administrators operate.

Lack of Commitment from Carriers

The administrators polled cited the lack of patience and long-term commitment by carriers as their top concern. According to one respondent, some carriers have a short-term view of results. “One bad year and some carriers want to exit a program even if they have five years of prior profitable experience,” he said. Another said there is a challenge in terms of carriers’ willingness to work cooperatively with administrators in developing new programs. He said “Too many carriers want to simply move existing programs. The entire Program market will grow with committed relationships when the two work together to develop something new.” Another administrator supported this view, saying “Too many carriers want to play it safe and just take over some other carrier’s program.”

Among the topics cited by respondents under this topic are the carrier’s unwillingness to consider smaller programs and the lack of willingness “to look outside the box for truly unique and complex programs.”

Playing Catch-up with Technology

Technology is another major challenge faced by program administrators. Some players in the program business admitted to finding it difficult to keep up with and leverage use of technology. One respondent said "Technology solutions [are] not robust enough and too expensive – too much customization required." This comment supports the technology-related findings of the previous survey – that there is relatively limited use of online systems in the program space.

The fact that many administrators see technology as a crucial challenge seems to indicate recognition of the need to invest in technology in order to drive efficiency.

Administrators seem to see technology as a significant factor to the success of a program and its administrators. A variety of insurance technologies have been made available in the market. Many program administrators capitalize on advances in computer hardware and software to streamline their internal workflow process and improve services to clients.

Upgrading existing technology systems and adopting state-of-the-art technology, however, remains a crucial challenge. Investments in technology can be particularly overwhelming. While some well-established firms can easily invest in state-of-the-art systems, for example, smaller "family-type" businesses may find such investment daunting. Some industry observers also point to how the level of legacy systems with the industry has hindered investments in technology.

Recruiting New Talent

One challenge that the industry must deal with is aging leadership – an issue that is common across the entire insurance industry. A number of the administrators polled said the industry is not recruiting enough good young people. One respondent said "retaining and attracting top talent in skill positions" is a major challenge. Another administrator said there is lack of talent, especially in terms underwriting and actuarial expertise. He also mentioned the "lack of leadership to recognize, reward, and develop the talent that exists."

Future of the Program Business: Steady Growth Seen by Administrators

Despite the numerous challenges they face, program administrators are bullish on future prospects for the program business. This finding is consistent with the results of the two previous surveys.

Administrators remain optimistic as to the program business' growing place and importance in the property and casualty insurance industry.

One program administrator polled said "Outlook is good for the program business as carriers continue to fight increasing expenses and distribution making the program administrator a great alternative." Another respondent said "Enormous value can be brought to both the carrier and the marketplace with program administrators' expertise and specialization." He added that "program administrators are able to be dynamic and responsive to the industries they serve."

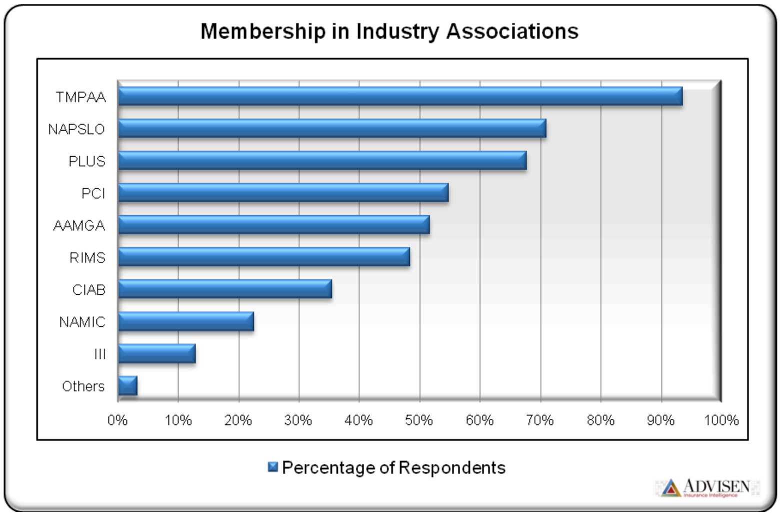
Commenting on the topic, one respondent acknowledged that there is still ample capacity available to support new and existing programs. He also mentioned that “the market will reward for performance – or even a great game plan. Very positive future for smart and diligent program administrators.”

Insurers

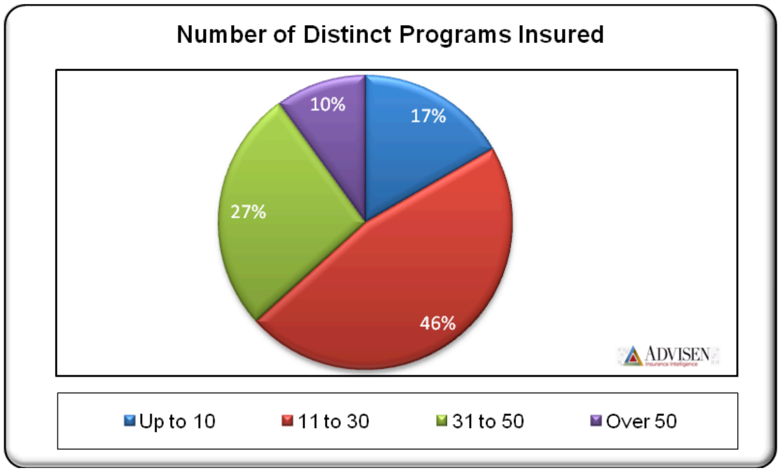
Demographics

To give a carrier perspective, insurer members of the TMPAA were invited to participate in the survey. 43 insurers completed parts, if not all, of the sections in the questionnaire. This compares to 34 carrier respondents in 2011 and 43 participants in 2012. The survey participants confirm that they are insurers active in the program space.

As with program administrators, most of the insurers polled are members of the TMPAA (94 percent) and NAPSLO (71 percent). Nearly 70 percent are members of PLUS. They also reported memberships with PCI, AAMGA, RIMS, CIAB, NAMIC, and III. In comparing the memberships of carriers and program administrators, it is not surprising that more carriers reported memberships with insurer-focused organizations such as PCI, III, and NAMIC.

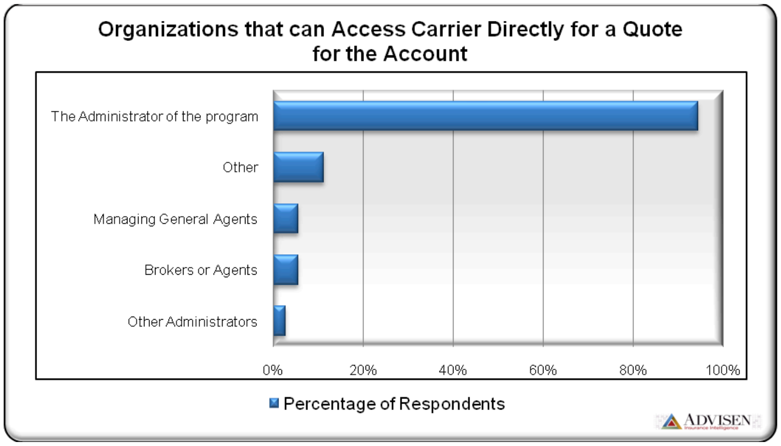


As with the previous survey, 46 percent of carriers polled insure between 11 to 30 programs. The difference comes in the “more than 30 programs” bracket. In 2011, only 23 percent of the carriers polled said they insure more than 30 programs. This year, 37 percent of the respondents said they insure more than 30 programs.

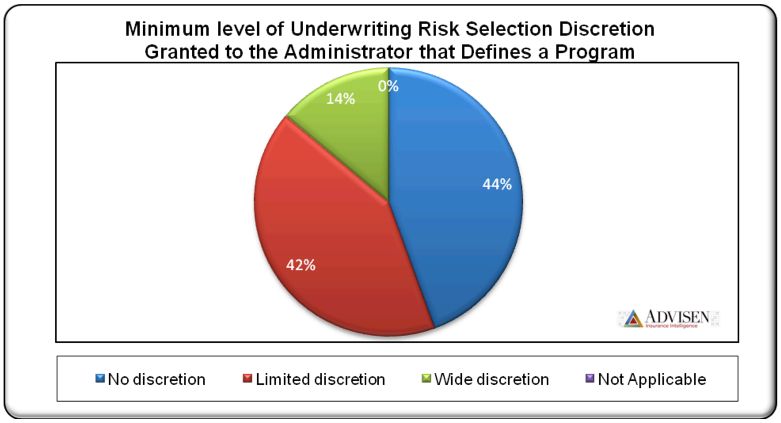


Program Definition

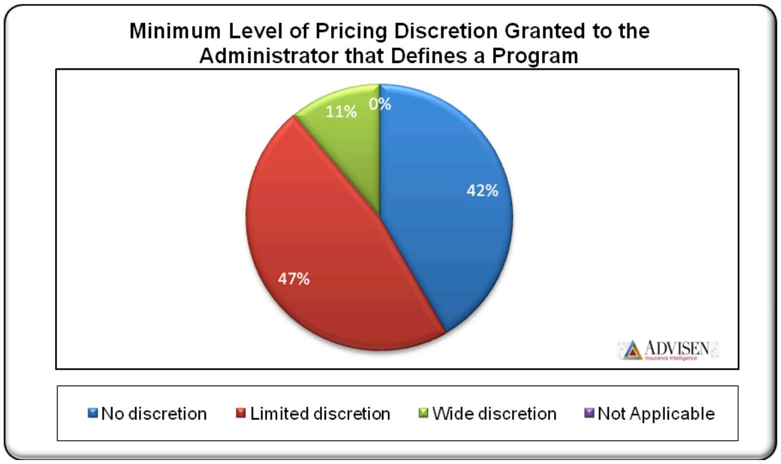
The majority of the carriers polled are in agreement with administrators on the issue of whether or not administrators should have the sole right to issue a quote for an account that fits the guidelines of their program. As with administrator respondents, over 90 percent of carriers surveyed said that administrators should have this type of exclusivity.



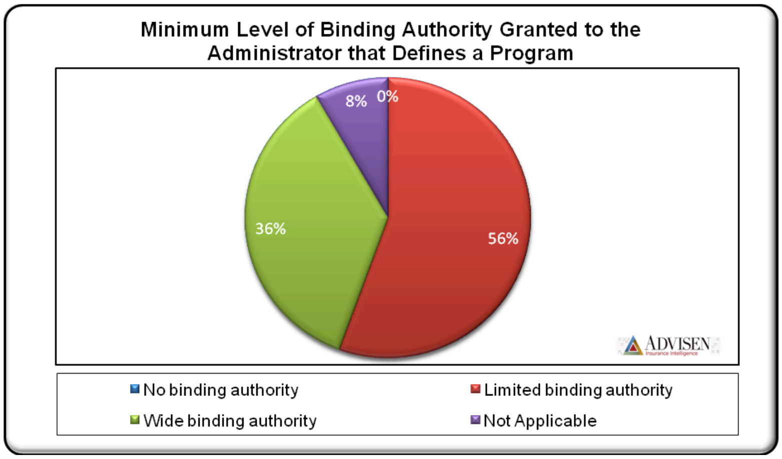
In terms of the minimum level of underwriting risk selection granted to the administrator, 44 percent of carriers surveyed said "no discretion" (closely defined set of guidelines), while 42 percent said "limited discretion" (loosely defined set of guidelines) is appropriate. The remaining respondents believe that there should be "wide discretion" (wide discretion with very few referrals).



Carriers are mostly divided between "no discretion" (closely defined rating plan) and "limited discretion" (loosely defined rating plan) when it comes to the minimum level of pricing discretion granted to the administrator.

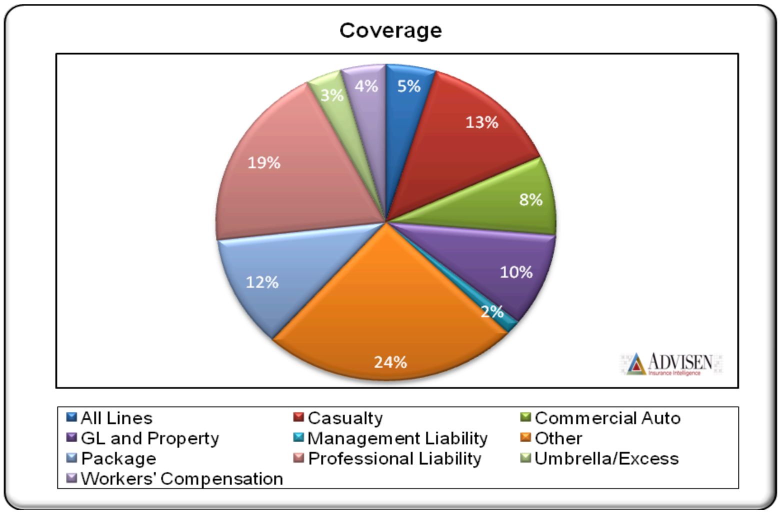


On the minimum level of authority granted to the administrator, more than half of the carriers surveyed believe in having "limited binding authority" (Administrator can issue quotations on accounts fitting well-defined guidelines), while 36 percent think there should be "wide binding authority" (Administrator can issue quotations on accounts with very few referrals.). The remaining respondents said "not applicable."

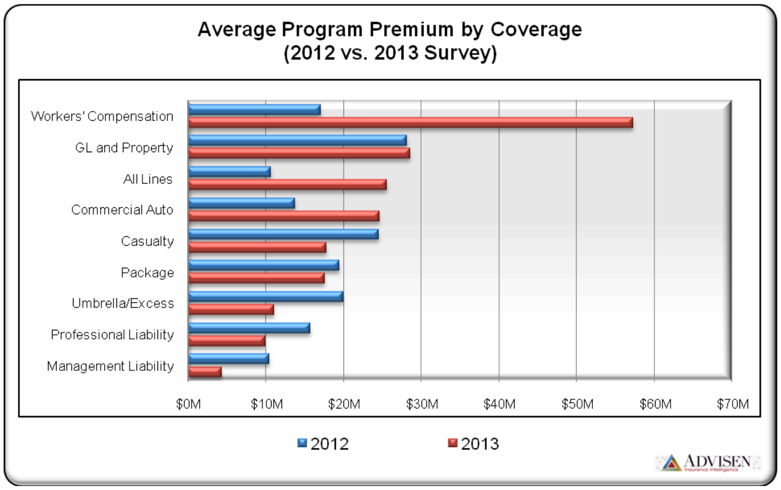


Coverage

Similar to the administrators' survey, the TMPAA asked carriers about the coverages they offer to understand whether they tended to provide a complete suite of coverages or single more specialized industry-specific insurances. When asked to select from a list the types of coverages they provide, 19 percent of the carriers reported providing Professional Liability coverage, while 13 percent listed Casualty. Twelve percent listed Package. At 24 percent, the biggest portion of the pie was "Others." This portion includes Inland Marine, Site Pollution, Crime, and Miscellaneous Transportation.



Unlike in 2011 when the highest average program premium was recorded in GL and Property, Workers' Compensation ranked first for 2012. The lowest program premium was reported for Management Liability.

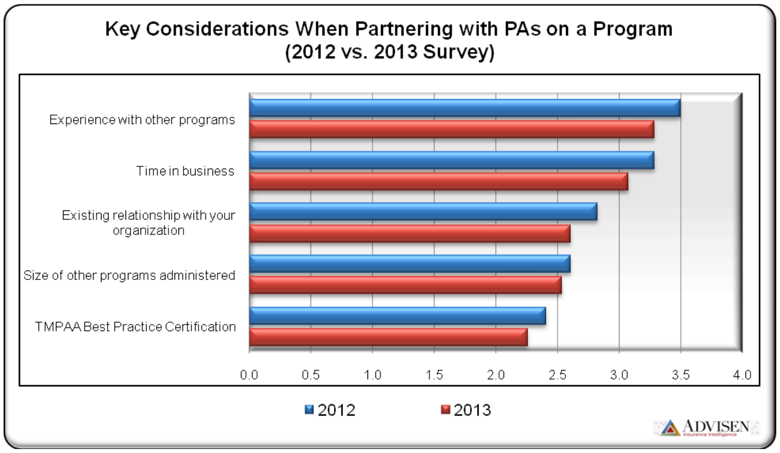


Program Success Criteria

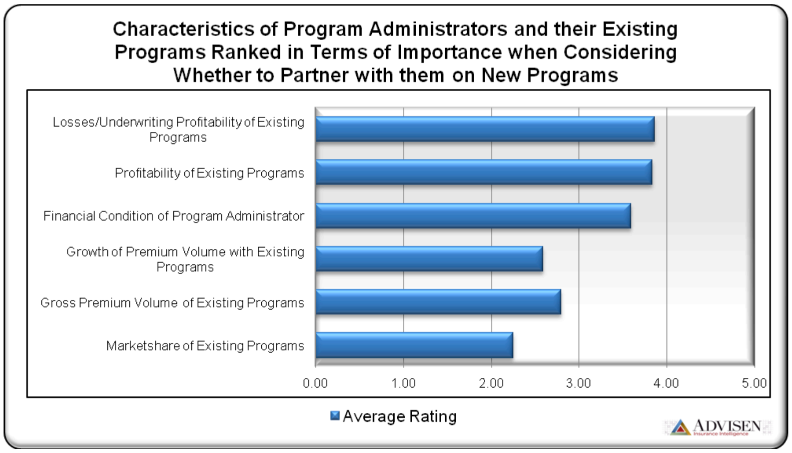
Determining the factors that make a program successful is one of the cornerstones of this study.

To offer TMPAA members insight as to how carriers assess program administrators, we asked insurers about the characteristics they look for in program administrators when considering whether or not to partner with them on a new program.

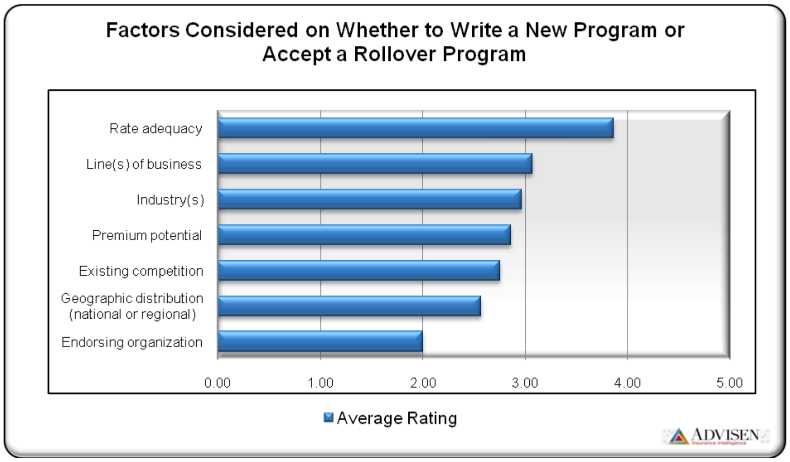
As with the two previous surveys, experience with other programs and time in business are the top considerations of insurers polled in 2013 in terms of partnering with new program administrators on programs.



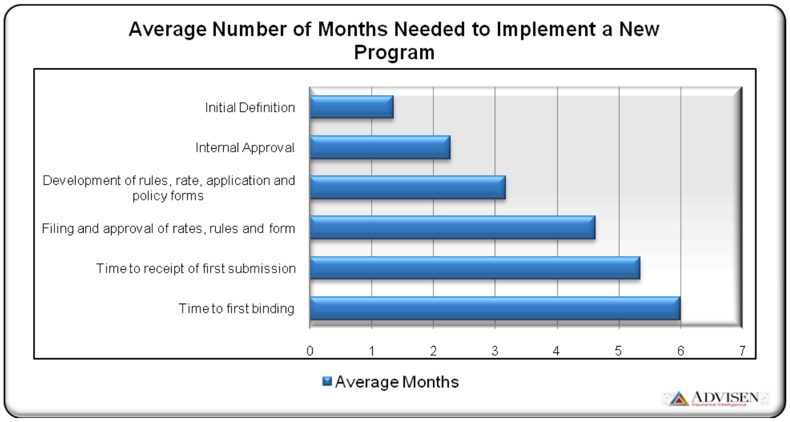
When exploring partnerships on new programs, carriers look at the profitability of existing programs as well as the losses/underwriting profitability of existing programs. The financial condition of the program administrator is likewise deemed important by insurers. This finding is consistent with the results of the previous surveys.



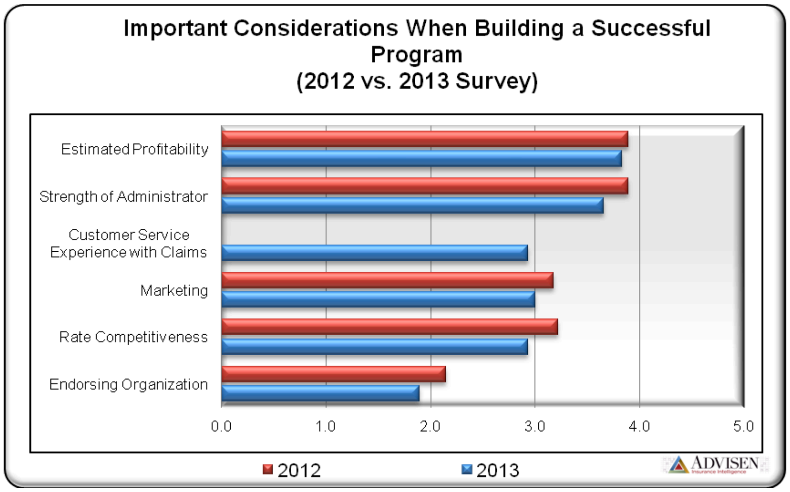
The survey asked a series of questions to determine how Insurers decide which Program Administrators to work with and which programs to underwrite. Rate adequacy remains as insurers' top priority when considering whether or not to write a new program or accept a rollover program. On a scale of 1 to 4 with 4 as the most important, rate adequacy registered an average of 3.86, compared to 3.93 in the previous survey. Unlike in the 2012 and 2011 survey when premium potential landed the second spot, the 2013 survey saw lines of business ranking second with an average of 3.07. Industry and existing competition are likewise seen as important components. With an average of 2.57, geographic distribution is the lowest priority.



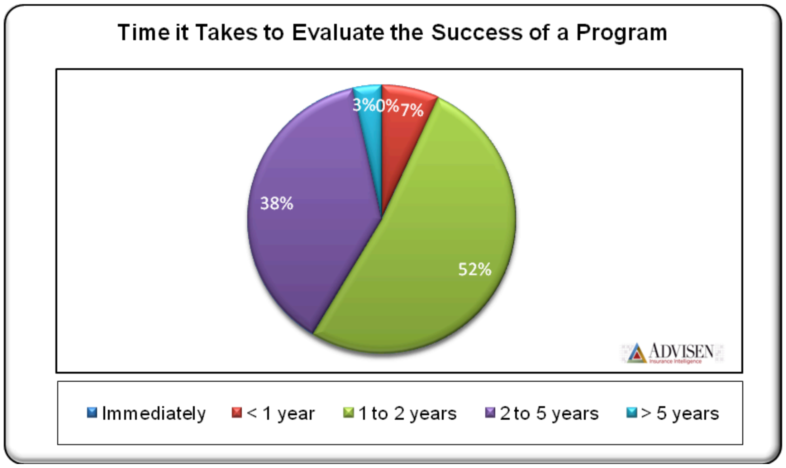
Insurers polled say that after a program is first presented, on average it takes about a month for initial program definition, and two months for internal approval. Three months are needed to complete the development of rules, application and policy forms, while it takes nearly four months for the filing and approval of rates, rules and form. Time to receipt of first submission is about five months, then time to first binding is six months. This is consistent with their response in the 2012 survey.



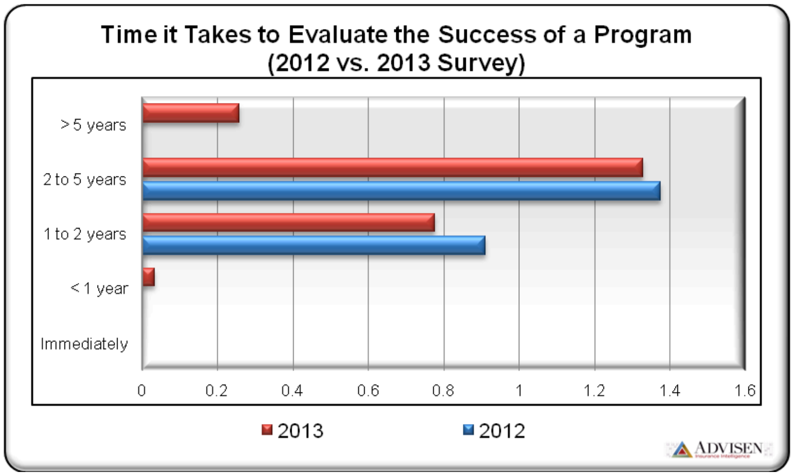
Similar with the previous survey, estimated profitability and strength of administrator are the most important factors needed to build a successful program. The carriers polled see little value in endorsements provided by organizations such as trade organizations.



Fifty-two percent of the insurers surveyed say it takes one to two years to evaluate the success or failure of a program, while 38 percent say the evaluation period takes two to five years.



Unlike last year when no insurer reported taking less than a year or more than five years for evaluation, the 2013 survey saw 7 percent saying less than one year and 3 percent saying over five years.



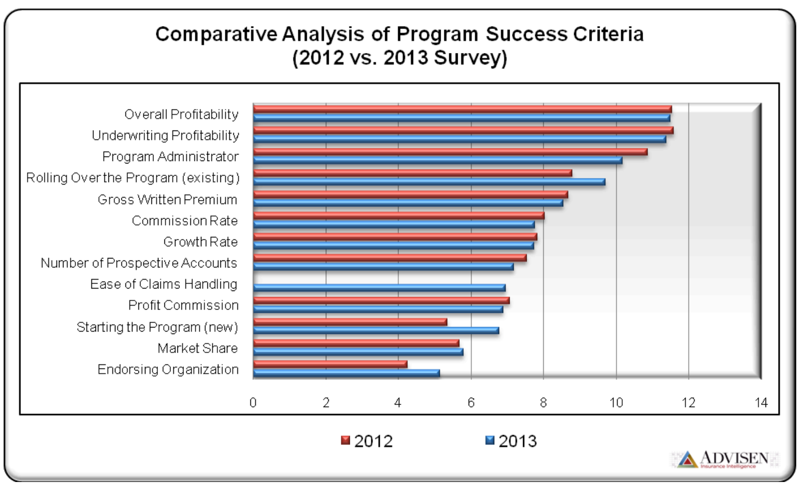
As with the previous surveys, insurers were asked to rank 12 factors in terms of their importance to a successful program on a scale of 1 to 4, with 4 as the most important.

As would be expected, program administrators and insurers are one in their view that profitability is what matters most when establishing a successful program. When asked to rate a number of factors crucial to program success on a scale of 1 to 4, with 4 as the most important, program administrators registered an average rating of 3.8 for underwriting profitability. In the case of insurers, overall profitability scored 11.5 on a scale of 1 to 12 with 12 as the highest. Underwriting profitability scored 11.4.

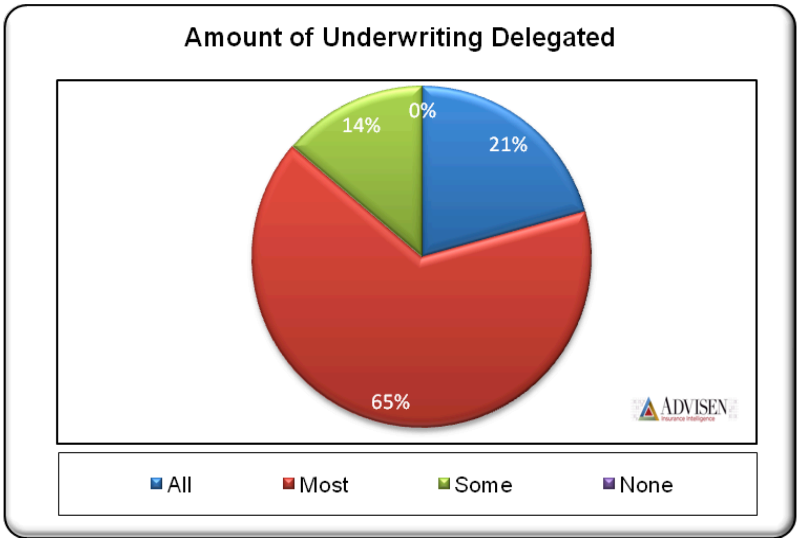
According to one carrier respondent, “A program is successful when it provides sustained profitability to both the carrier and program administrator while simultaneously providing to the end buyer a product that adds value by addressing coverage, pricing or distribution limitations. This is accomplished by the carrier and program administrator operating in a collaborative and transparent environment which fosters innovation and flexibility in problem solving, leading to solutions that add value to the end buyer.”

For another survey respondent, the success of a program lies in clear definition of the roles of both administrators and carriers. “In order for a program to be successful there needs to be defined roles/objectives for the PA, the carrier, and all service providers (marketing, claims, etc.), and the ultimate success is usually determined by how effectively all participating groups perform in their respective roles,” the participant said.

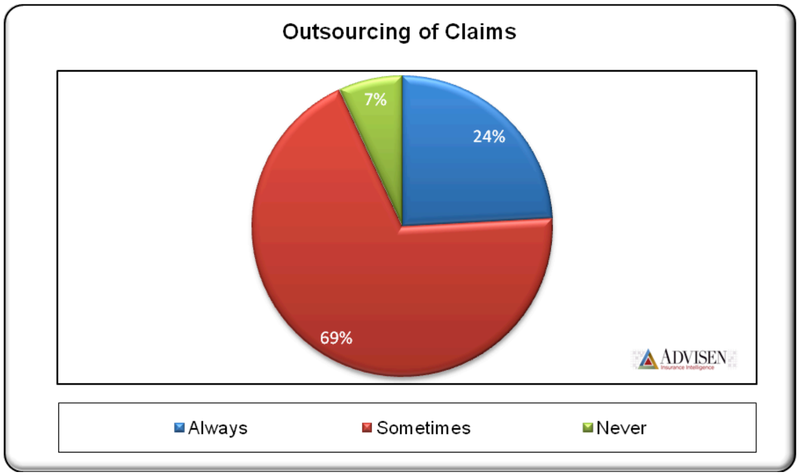
Other important factors which rank high on the list are the program administrator and rolling over of the existing program.

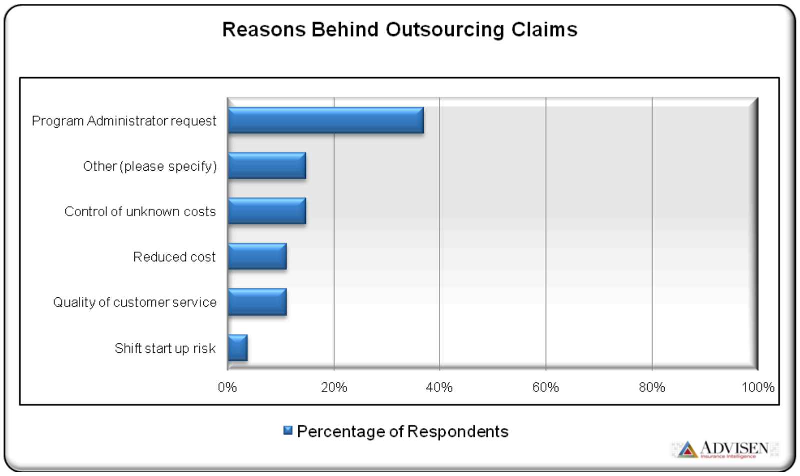


One of the definitional precepts of program administration is the delegation of binding and underwriting authority. We wanted to test how much this actually is applied in action. A majority of the responding insurers report delegating underwriting functions. Sixty-five percent of the carriers surveyed say most of their underwriting is delegated. A fifth of the respondents say that underwriting is fully delegated, while 14 percent report that some of the underwriting tasks are delegated.



A majority of the insurers surveyed say they outsource claims. Nearly 70 percent say this activity is outsourced “sometimes,” while a one-fourth says it is always outsourced. The top reason in outsourcing claims is the request of administrators.





More than 60 percent of the carriers polled outsource risk management sometimes, while 28 percent says they always outsource this activity. The remaining 10 percent says they never outsource risk management.

New Program Selection Criteria

When asked about the major challenges they confront in the course of doing business, program administrators mentioned that starting new programs is a key issue. Some respondents said that carriers are not too keen on start-ups. One administrator said insurers lack the willingness to take risks in start-ups. Another administrator supported this statement, saying “Too many carriers want to simply move existing programs. The entire Program market will grow with committed relationships when the two work together to develop something new.”

With this as backdrop, what will convince carriers that the program is worth their investment?

The carriers were asked about the initial information they are looking for from a program administrator before a full new program proposal. For many of the respondents, it is important to see an executive summary of the program as well as premium and loss history before a non-disclosure agreement is signed. They also cited the importance of examining the program administrators’ business plan, market analysis, and competition analysis.

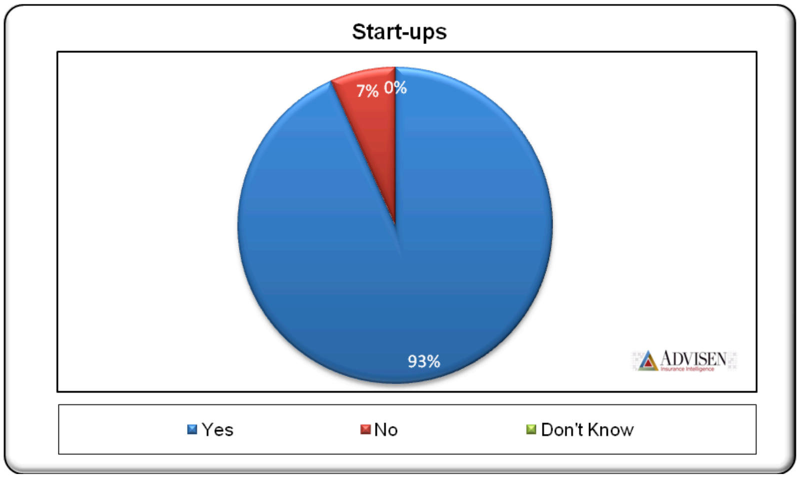
After an NDA is signed, the next step is for a full proposal for a new program to be submitted. Commenting on the critical elements they need to see in a full proposal, one respondent said his firm looks for “A business plan with well-laid out goals and objectives, included clear actions to be taken if goals are not met.”

In reviewing a full proposal, one respondent said he looks at a full proposal as being similar in nature to a business plan. “We as carriers have capital to allocate, program administrators are looking for capital support. I want to know what opportunity provides the best chance of getting a better than average return on my investment. Specific items needed will be historical premiums, historical exposures, incurred losses, loss triangles, loss bands, loss descriptions, annual rate changes, number of insureds, number of policies, targeted hit ratios, geographic distribution, marketing plan, IT resources/needs (rating, policy issuance, billing).

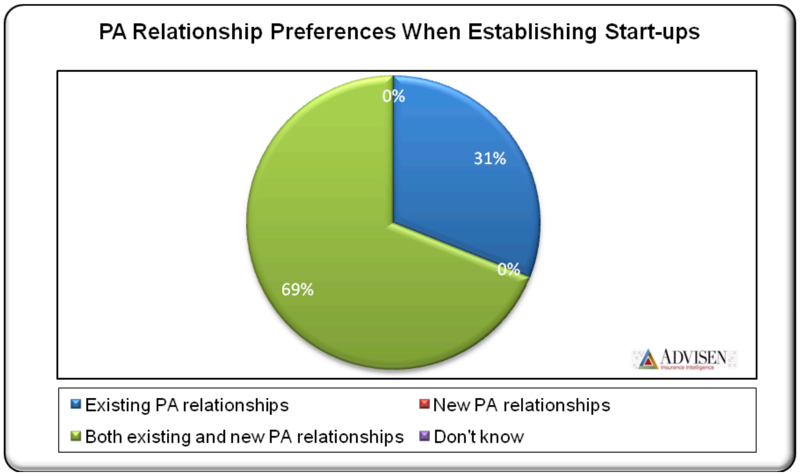
Another carrier underscored the importance of "Loss experience, underwriting experience, and detailed and measurable metrics for success."

Asked about the financial factors that they look at for considering new programs, a good number of responding carriers mentioned the need to meet their return on equity (ROE) targets. One respondent said the major factors he looks for are "Historical experience, rate change history, commission requirements, and 4. Competitiveness of profitable rates."

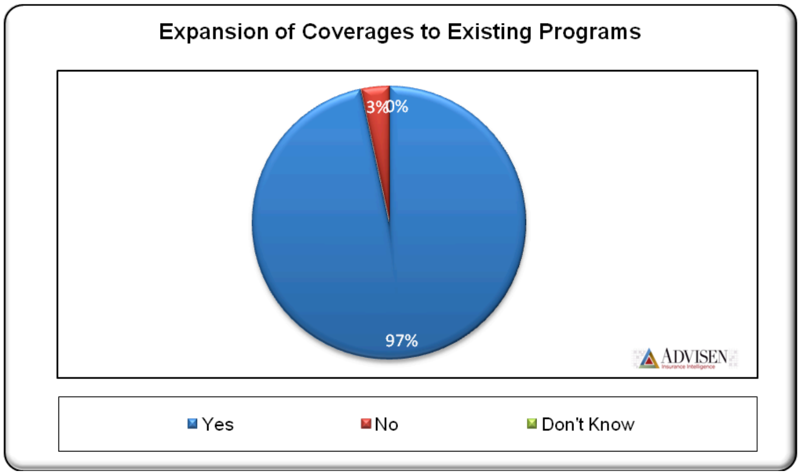
A majority of the respondents say they do start-ups.



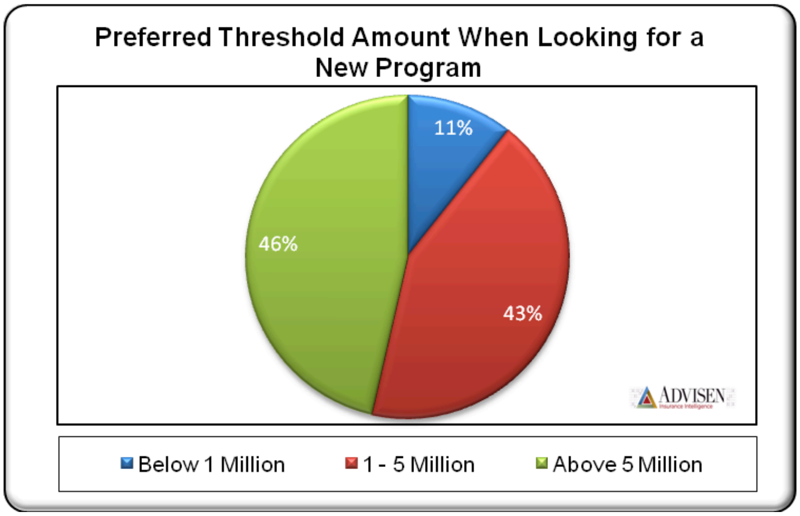
Of those who do start-ups, 69 percent say they do them with both existing and new program partners. The remaining respondents only do start-ups with existing PA relationships.



Most of the carriers polled say they consider expanding coverages to existing programs.

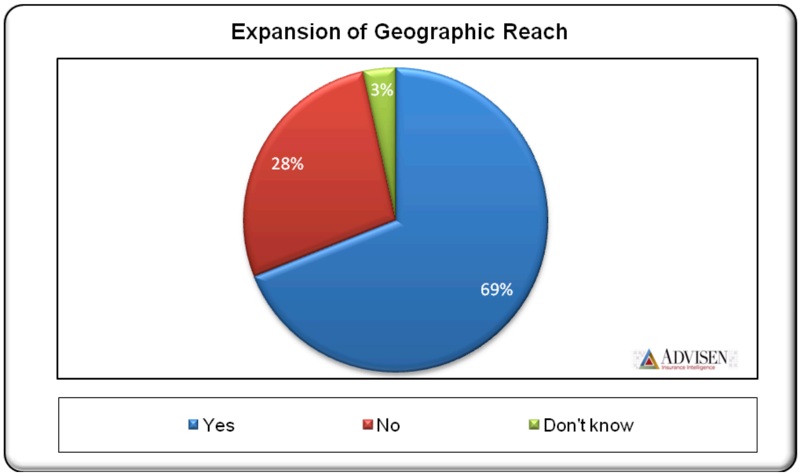


When deciding whether to be involved in a new program, more than half of the carriers polled look at a threshold premium of $1 million to $5 million. For 27 percent of the respondents, the threshold premium they are looking for is less than $1 million. For the remaining survey participants, the threshold amount is more than $5 million.



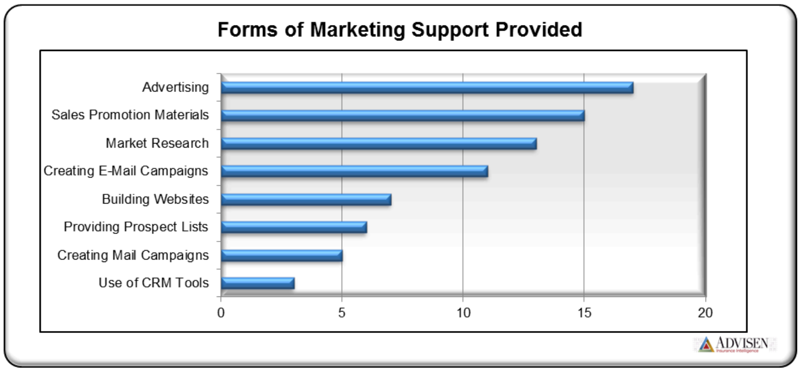
Geographic Expansion

Similar with the previous survey, more than 60 percent of survey respondents say they have plans of expanding their geographic reach, while one-third of those polled have no such plans.

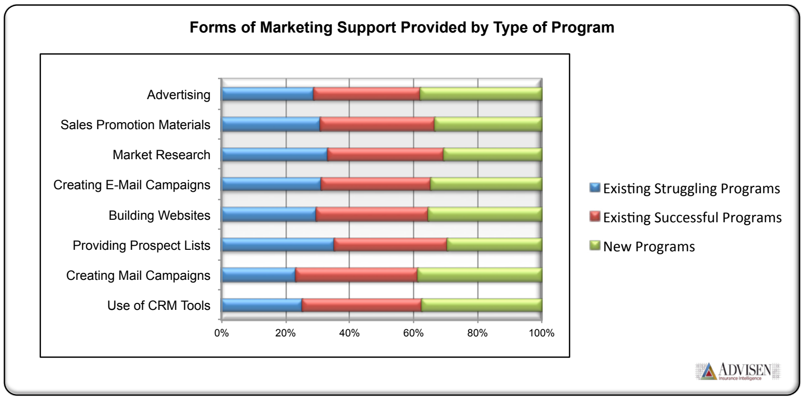


Marketing Practices

The carriers were asked about the forms of marketing support they provide to programs. Among their responses, advertising ranked first, followed by sales promotion materials, and market research. Lowest on the roster are customer relationship management (CRM) tools and mail campaigns.



In terms of the forms of marketing support provided for existing struggling programs, existing successful programs, and new programs, an analysis of responses shows that various forms of marketing support are provided across all program types whether they are new, successful, or struggling. When it comes to advertising, greater emphasis is given to new programs. While existing struggling programs receive various forms of marketing support, they are given slightly lesser attention when it comes to advertising, sales promotion materials, and mail campaigns.



Survey Summary and Conclusions

"The TMPAA State of Program Business Study 2013" found that the program space continues to defy the odds, reporting strong growth amid the persisting soft market and economic uncertainty. A comparative analysis of premiums shows that the program business is growing at a quicker rate than the overall commercial insurance marketplace.

Program administrators polled also expressed optimism about the industry's future owing to the increasing recognition of its value in placing specialized risks.

The survey also found that administrators and carriers are in general agreement about program definition, specifically on what constitutes a program. They are also in sync when it comes to the issues and challenges faced by players in the program space. Among key challenges identified were technology and the lack of new talent.

Views about program success remain the same. As with the previous surveys, both administrators and insurers believe that profitability and track record are the most crucial components of program business success. They also hold a shared perspective when it comes to forming partnerships that lead to successful programs. Survey responses point to commitment as long-term partners and performance of well-defined roles help ensure effective and productive relationships.

Significant differences were also highlighted between the larger and smaller program administrators, one of which is that the larger firms have a greater propensity to acquire other program administrators. The larger firms also tend to perform more services in-house such as actuarial, marketing, and technology, as opposed to smaller firms which have a greater propensity to have some services handled by either a carrier or a third party.

The 2013 survey is the third in a series of annual surveys of program administrators and carriers to track trends in the program business. TMPAA, Scottsdale Insurance Company, Western Heritage Insurance Company and Advisen anticipate that continued strong support for the survey will result in a valuable, annually updated tool that will provide TMPAA members information they need to make better-informed business decisions.

About TMPAA

The Target Markets Program Administrators Association is an organization dedicated to the unique challenges of insurance program administration. The TMPAA's mission is to help Program Administrators conduct their business more efficiently, with greater proficiency and profitability. The organization provides its membership with an array of business and educational services including access to program carrier decision makers, best practice information and recognition, Target University, Program Marketing and Distribution, Target Programs (online portal), Industry Studies and two annual Member Meetings. www.targetmarkets.com

About Advisen

Advisen Ltd. manages business information and market data for the commercial insurance industry and maintains critical risk analytics and time-saving workflow tools for more than 530 industry leading firms. Through its work for the broadest customer base among information service providers, Advisen delivers actionable information and risk models at a fraction of the cost to have them built internally. Designed and evolved by risk and insurance experts, and used daily by more than 100,000 professionals, Advisen combines the industry's deepest data sets with proprietary analytics and offers insight into risk and insurance that is not available on any other system. Advisen is headquartered in New York. For more information, visit http://www.advisen.com or call +1.212.897.4800 in New York or +44(0)20.7929.5929 in London.

About Scottsdale Insurance Company

Celebrating 30 remarkable years of stability and leadership, Scottsdale Insurance Company operates on both an admitted and non-admitted basis, doing business in all 50 states. We offer comprehensive solutions for Commercial Property & Casualty, Commercial Transportation, Excess & Umbrella, Personal Lines, Professional Lines, Programs, and Brokerage. With over $400 million in business placed through our Program Managers, Scottsdale Insurance Company is a leader in the specialty market. As a wholly owned subsidiary of Nationwide, our consistently profitable results, our A.M. Best rating of A+XV, and our financial stability for the last 30 years give us the strength to succeed in all market conditions. Add to that strong relationships and inspired leadership and you have a unique Scottsdale experience. www.scottsdaleins.com

About Western Heritage Insurance Company

Western Heritage Insurance Company is part of the Scottsdale group of companies, a wholly owned subsidiary of Nationwide and benefits from the backing of one of the largest insurance and financial service providers in the United States, an A.M. Best rating of A+XV (superior) and a Standard & Poor's "A" rating. As part of an industry leader with impeccable financial strength and stability, Western Heritage Insurance Company provides Property and Casualty, Garage products and expertise, and full support for Program Managers. We provide diverse solutions to meet our Program Man agers' needs by offering both a non admitted and admitted platform, either standalone lines or as a complete Package program, and with a countrywide, regional or state-specific focus. Western Heritage has been offering opportunity through partnerships for 26 years, so business partners can expect more with Western Heritage. www.westernheritageins.com