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Program Administrators Association

The TMPAA State of Program Business Study 2015

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The TMPAA State of Program Business Study 2015

Introduction and Executive Summary

Amid a challenging marketplace, the program business continued to deliver noteworthy results in 2014, ***The TMPAA State of Program Business Study 2015*** found.

The *TMPAA State of Program Business Study* is an annual survey that documents the size of the program business and tracks various trends that shape the market. Since it was launched in 2011, the survey has documented the rapid growth of the program business insurance market. From $17.5 billion in commercial insurance revenue in 2010, the program business has grown to $32.3 billion in 2014.

In an effort to provide meaningful benchmarking data to nearly 400 members in conducting their businesses more efficiently with greater proficiency and profitability, the TMPAA conducted the fifth leg of the survey in 2015. This year's study presents 2014 business results.

Apart from reporting on the continued growth of the program business, the annual study also looked into new benchmarking areas aimed at providing key information for strategic planning in program business operations. With 156 program administrator and 52 carrier responses, the 2015 survey focuses on data collection, analytics, and new program development.

These topics were identified through a pre-survey conducted among 136 TMPAA members in early 2015. The respondents were asked about their prior survey interests and new topic interests. Program analytics, developing a start-up program, and data collection and management topped the list of new topics that members wanted featured in ***The TMPAA State of Program Business Study 2015***. Value added services (differentiators), system interfaces with carriers, and program innovation were also among other new topics identified. The pre-survey results were then analyzed by a panel to narrow down the scope of the survey. The question topics for the 2015 survey were designed and reviewed by a committee of TMPAA member Program Administrators and Carriers, the TMPAA Board, and Advisen.

As with the first four 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 Allied World, BMS Intermediaries, The Chubb Group of Insurance Companies, Ironshore, NetRate Systems, and Rockhill Specialty Programs – members of the TMPAA.

Key Findings

Overall

- Data collected from this year's survey shows that program administration continues to be a growing and vibrant market. Despite facing the challenges of overcapacity and a soft market, many administrators reported growth in their book. They also expressed great optimism about the future of the program space.

- Between 2010 and 2014, an analysis of survey results shows that the rate of growth is increasing, albeit at a decreasing rate. While the rate of growth has slowed, it is still relatively high compared to other segments of the P&C industry.

- Program administration is a large business at $32.3 billion in premiums in 2014. The estimated size of the market rose 7.4 percent from $30.1 billion in premiums in 2013.

- The program business is growing more quickly than the overall commercial insurance marketplace. While the size of program business rose 7.4 percent, the growth in direct premiums written for commercial lines increased by only 1.7 percent between 2013 and 2014.

- Since TMPAA inaugurated the market study, program revenues have nearly doubled from $17.5 billion in 2010 to $32.3 billion in 2014.

- A comparison of 2015 Administrator responses to 2014 responses showed a 2.3 percent growth in the number of programs.

- ***The TMPAA State of Program Business Study 2015*** found that the estimated number of confirmed organizations in the United States that meet the definition of program administrator remain unchanged. The estimated number of administrators remained constant at 1,000 in 2015.

- Responses show the increasing interest in big data and its application among poll participants.

Program Administrators

Program Administrator Respondent Demographics

- While all respondents administer at least one program, the majority of respondents (77%) reported that Program Administrator best describes their firm. Ten percent describe themselves as Wholesale Brokerage, 7 percent as Retail Brokerage/agency, and 6 percent as a Contract Binding Agency.

- Thirty-eight percent of the administrators polled say their total gross written premiums for programs is $20 to $75 million, 37 percent say over $75 million, while the remaining 25 percent say up to $20 million.

- Fifty-four percent of program administrators polled are from small firms with gross program administration revenues of less than $5 million. This compares to 70 percent in the previous survey. The percentage of firms reporting revenues of between $5 million and $30 million increased marginally from 38 in the previous survey to 39 percent in the 2015 survey. Those who reported revenues of more than $30 million also increased from 8 percent in 2014 survey to 10 percent in the 2015 poll.

- The top three lines of business underwritten are liability, property, and excess/umbrella. On the other hand, the bottom three are financial and political risk, medical malpractice, and marine and aviation.

- When it comes to measuring operational efficiency, 59 percent of respondents measure operating expenses as a percentage of revenue, 44 percent measure it through revenue per employee, 12 percent do so by the number of accounts per underwriter, and 10 percent measure it by the number of employees. Eight percent of the administrators polled mentioned using other means like operating margin; profit margin; earnings before interest, tax, depreciation and amortization (EBITDA); margin on SPTI, and net operating revenue. The remaining 7 percent do not measure their operating efficiency.

Agency Perpetuation Strategy

- Forty-eight percent of those polled perpetuate from within using an internal sale. Eighteen percent of administrators surveyed said they sell to another agency or broker, 10 percent sell to a carrier, and 1 percent established an ESOP (Employee Stock Ownership Plan. The remaining 23 percent mentioned other strategies including using a financial partner, a wholly owned subsidiary, or private equity.

Program Business Continues to Report Solid Performance

- The program business continued to post upbeat figures. The number of administrators who reported increases in premiums rose from 52 percent in 2010 to 72 percent in 2011 to 82 percent in 2012 and 2013. The figure remains at 82 percent for 2014.

- Those who reported premium increases of more than 25 percent remain unchanged at 18 percent. Those who recorded increases of 10 to 25 percent rose from 32 percent in 2013 to 33 percent in 2014. Those who reported increases of 1 to 10 percent declined from 33 percent in 2013 to 31 percent in 2014. Only 10 percent of respondents said their premiums declined in 2014 compared to 11 percent in 2013. Eight percent of respondents reported no change in premium in 2014 compared to 5 percent in 2013.

- As with the previous four surveys, administrators polled also continued to report a high renewal rate in 2014 – 85.5 percent compared to 85 percent in 2013.

- Seventy-eight percent of respondents reported increases in program administration gross revenues in 2014, slightly lower than the 81 percent recorded in 2013. Twelve percent reported declines in 2014 – slightly higher than the 11 percent recorded in 2013. Ten percent of respondents reported no changes, compared to 8 percent in the previous survey.

- Of those who reported increases, 36 percent says program administration gross revenues rose 1 to 10 percent, 26 percent saw increases of between 10 to 25 percent, while 16 percent reported increases of more than 25 percent. Among those who reported declines, 10 percent say gross revenues dropped 1 to 10 percent, while 2 percent saw declines of between 10 and 25 percent.

Services Offered by Size of Administrator

- In reviewing whether the services provided vary significantly by the size of the administrator, the survey found that underwriting, marketing, policy issuance, and technology services tend to be provided in-house across all administrator sizes. This is consistent with the results of the previous survey.

  In the case of actuarial services, the large firms tend to provide it in-house, mid-sized firms tend to provide it through its carrier or outsource it to a third-party provider, and smaller firms provide it through the carrier. Safety and loss prevention tend to be outsourced through a third-party provider across all revenue groups. Claims administration tends to be provided by a carrier or outsourced to a third-party provider. This trend is seen across all revenue brackets.

Risk Sharing

- Seventy-two percent of respondents do not risk share in their programs, while 27 percent do risk share in both underwriting gain and loss. The remaining 1 percent had no view on risk sharing.

- Asked if they have any programs that do not include a profit sharing component, 63 percent of the respondents said yes, while 37 percent said no.

Insurers

Insurer Respondent Demographics

- All insurer respondents have at least two current programs.
- Forty percent of the carriers surveyed insure 11 to 30 distinct programs. Thirty-eight percent of the respondents insure up to 10 distinct programs, 12 percent insure more than 50 distinct programs, while 10 percent insure 31 to 50 distinct programs.
- The average number of programs managed by each of the respondents' program underwriters is 4.
- Sixty-three percent of the carriers polled reported having total gross premiums of $100 million and above, 22 percent say $50 million and below, while the remaining 15 percent report total gross premiums of $50 million to $100 million.
- In terms of percentage of total number of programs by type of brokers/agencies, 50 percent come from program administrators, 30 percent come from MGAs/MGUs, 11 percent come from wholesale brokers/agencies, while 8 percent come from retail brokers/agencies.
- Thirty-nine percent of carriers polled say the average tenure of their programs is 4 to 6 years, while 34 percent say 7 to 10 years. For 17 percent of carriers, the average tenure of programs is up to 3 years; while for the remaining 10 percent it is over 10 years.

Industry Projection

- As with the previous survey, the majority of carriers polled plan to expand within the next three years. Their program strategy also includes plans to add programs over that period.
- Ninety-five percent of the respondents said they anticipate increasing the amount of premium written in the next three years, while the remaining 5 percent anticipate no change.
- Asked about their views on the impact of the softening P&C market conditions on the growth potential of the program business, 54 percent of the insurers polled say that it will be a negative for program business growth, while 24 percent believe it won't have any impact on program business. Fifteen percent say it will be a positive for program business growth, while 7 percent had no view.
- In terms of lines of business that they consider as best fits for programs, the top three answers given were Liability, Package, and Property. On the other hand, the worst fits mentioned were Workers Compensation, Personal Lines, and Financial and Political Risk.
- As with the previous poll, the majority of insurers surveyed say program administrators apply more sophisticated or effective techniques for risk selection, pricing and data collection compared to five years ago.
- Unlike in the previous survey when all carriers surveyed said they prefer direct contact with program administrators rather than going through intermediaries, only 79 percent have the same preference in this year's survey. Fourteen percent of those polled go through an intermediary, while the remaining 7 percent had no view.
- Asked whether they have the tendency to take programs net or use reinsurance, 58 percent of the respondents said they use both, 33 percent said tend to take programs net, while the remaining 9 percent said they use reinsurance. Of those who reported using reinsurance, 42 percent responded "all of the above," meaning

structured by the program, across all programs, and part of a corporate program. Twenty-seven percent said it is structured by the program, while 26 percent said it is structured as part of a corporate program. The remaining 5 percent responded across all programs.

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

A comparative analysis of administrators' and insurers' views on key topics revealed interesting insight on start-up programs, data collection and management, predictive modeling, and challenges faced by program administrators.

Start-up Programs

Establishing start-up programs is one of the most closely watched topics in the program business. In this survey, both administrators and insurers were asked a series of questions about their practices related to start-up programs.

Carrier Interest

- Are carriers more or less interested in start-up programs compared to three years ago? Nearly 40 percent of program administrators polled said the level of interest is about the same. An equal number of respondents (24 percent) said more interested and less interested, while the remaining 14 percent had no view.

- Of those who do start-ups, 61 percent say they do them with both existing and new program partners, while 32 percent only do start-ups with existing PA relationships.

- Nearly 80 percent of the carriers surveyed say they have worked on a start-up program with a program administrator in the past 12 months, while 23 percent say they did not.

- Interestingly, in spite of the carriers' statements that they are willing to do new programs, program administrators are having hard time getting a carrier interested. This is supported by the count of markets that the PA's approached for a new program. Also, the high failure rate reflects that difficulty.

    - A fifth of the administrators had to approach eight or more markets to start a new program, while 12 percent approached seven markets. Seventeen percent approached four markets, while 26 percent approached three markets. Only 13 percent approached just two markets and 10 percent approached one market.

    - More than half of those polled admitted failing to find a carrier for a start-up program, while 44 percent said they have never failed.

- The administrator respondents were asked about the length of time it took them to find a market from the beginning of the process until securing a signed agreement. Nearly 50 percent of the respondents said it took one to six months, while 28 percent said it took seven to 12 months. Nineteen percent responded 13 to 18 months, while the remaining participants said it took more than 19 months.

- According to 67 percent of administrators polled, they found the market through an existing relationship. Eight percent found the market through reinsurer introduction, 7 percent through TMPAA, 4 percent through the American Association of Managing General Agents (AAMGA), and 1 percent through the National Association of Professional Surplus Lines Offices, Ltd. (NAPSLO). Thirteen percent of those surveyed said they found the market through other sources such as third party intermediaries and vital insurance partners.

- Despite the high failure rate, 66 percent of the program administrators polled said they have put together a start-up program in the past three years. Thirty-three percent of the respondents said "no", while the remaining participants had no view.

- Asked where they got the idea for the new program, 40 percent of the respondents said it was from an existing book of business. According to 19 percent of those polled, they got the idea from personal inspiration. Sixteen percent said it was requested by retail brokers or agents, while another 16 percent was from market research. Nine percent of the respondents said the idea was suggested by a carrier.

Type of Information Used

- The program administrators were asked about the type of information they used in preparing a proposal for a start-up program. Nearly all of those polled said they utilized proposed underwriting guidelines. The majority of respondents also used proposed pricing and proposed policy forms. They also conducted a detailed research of the industry or niche related to the proposal and gathered data on the competition. Less than 40 percent of the participants used detailed actuarial data.

- More than 70 percent of program administrators polled said carriers required them to submit loss data, while the remaining 27 percent said they were not required.

Profitability

- In terms of profitability timeframe, more than half of the carriers said that a start-up program is expected to be profitable within one to two years. A fourth of the carriers said the timeframe is over two years, while 16 percent said profitability is expected within six to 12 months. Only seven percent said profitability is expected in less than six months.

- Almost all of the carriers surveyed said they offer profit sharing agreements for their program administrators.

- Administrators were also asked about profitability. Nearly 70 percent of the program administrators surveyed said they allow two to three years for their investment in a new program to be paid back in profits. Nearly a fifth of poll participants said they allow four to five years, while 9 percent said one year.

- Asked if expense sharing on behalf of the program administrator would help with a start-up initiative, 60 percent of the respondents said yes. Fourteen percent said no, while the remaining 26 percent had no view.

- Sixty-nine percent of the respondents offer risk sharing agreements where the program administrator shares a direct percentage of profit and loss of the program, while 31 percent said no.

Success Factors

- The program administrators were asked to rate the factors that were instrumental in getting a carrier to do their start-up program on a scale of 1 to 5 with 5 being the most important. With a weighted average of 4.35, a credible estimate of underwriting profitability ranked first in terms of importance. A close second and third were the appetite of carrier for the exposure involved and the thoroughness of program research. The fourth factor is credible estimate of premium volume with a weighted average of 3.67.

- The carriers polled were also asked about their views on factors that affect the success of start-up programs. A range of responses was offered, the most frequently mentioned of which was a solid business model. Marketing and distribution, risk selection, and adequate pricing were also seen factors most crucial to the success of a start-up program. Other factors mentioned were PA expertise, realistic projection, tighter controls, competitiveness of rates, claims attrition, and alignment between program administrators and carriers.

Data Collection and Management

Administrators and carriers were asked about their data collection and management practices. Both administrators and insurers recognize that data collection and management remain a key challenge.

Type of Data Collected

- The top three types of data collected by both administrators and carriers are historic losses, limits, and premiums. For administrators, the top response is historic losses with 89 percent, followed by limits at 87 percent, and premiums at 84 percent. For carriers, premiums topped the list at 100 percent. Historic losses ranked second with 98 percent, followed by limits with 93 percent.

Data Entry

- Asked how they enter data into a database, 60 percent of administrators reported using technical assistants to manually enter the data. A little more than half of those polled said underwriters manually enter the data. Forty percent of the administrators said data is submitted electronically by the producer, while 12 percent outsource data entry.

- Carriers were asked how they capture program data electronically. Eighty-five percent of respondents use electronic feed from program administrators, 62 percent upload Excel workbooks, and 23 percent said data is manually rekeyed off of applications.

Data Use

- Program administrators reported using data from a number of external parties. Eighty percent of those polled use data from the International Standardization for Organization (ISO), 39 percent use data from government sources, 38 percent from Dun & Bradstreet, 37 percent from the National Council on Compensation Insurance (NCCI), and 18 percent from Experian.

- The majority of program administrators use data for pricing. More than 60 percent of respondents use data for identifying niches of success or poor results, rating plan development, loss cause analytics, and marketing/distribution. Half of the respondents reported using data for operational efficiency.

- In the area of analytics, half of the administrators polled said they do not follow the NAIC and individual state developments on securing customer data. Twenty-eight percent of respondents said they follow the NAIC and individual state developments, while the remaining 21 percent had no view.

Data Sharing

- Eighty-three percent of carriers reported having data sharing agreements with program administrators. The remaining 17 percent have no such agreements.

- Asked if they prefer program administrators to have their own systems or utilize their systems, 76 percent of carriers polled said they prefer that the administrators have their own systems. The remaining 24 percent said they prefer that the administrators use the carrier's systems.

- Carriers were asked about the IT solutions they can provide to program administrators. Eighty-one percent said they can provide claims, 72 percent can provide policy issuance and rating, and 34 percent can provide risk control.

- Half of the carriers surveyed provide detailed claims feed to program administrators, while 47 percent do not provide such feed. The remaining 3 percent had no view.

Performance Metrics

- Asked what performance metrics they review for their individual programs, the top responses of administrators include loss ratio, renewal rate change, and overall quote to bind ratio. On performance metrics reviewed for individual underwriters, the top responses were quote to bind ratio, renewal rate exchange, and overall profitability.

- Seventy-eight percent of administrators surveyed do not have difficulty obtaining solid, quality premium and loss data from their existing programs. Twenty percent reported having difficulty, while the remaining 2 percent had no view.

Challenges

- Comments from both administrators and carriers show that data collection and program analytics is an area that needs to be improved.

Predictive Modeling

Responses to a series of questions on predictive modeling show limited uptake among administrators. They have yet to fully see its impact on program profitability.

Use of Predictive Modeling

- Nearly 40 percent of program administrators polled do not engage in predictive modeling. Twenty-six percent said they engage in predictive modeling, while 28 percent said their carriers use predictive modeling. The remaining 8 percent had no view.

Use of Third-party Assistance in Building Predictive Models

- Three-fourths of the administrators surveyed said that they and their carriers did not use an outside firm to assist them in building predictive models. Twelve percent of those polled said they employed an outside firm. Another 12 percent said their carrier used an outside firm. The remaining respondents were unable to find a model that worked with the size of their program.

Importance of Predictive Models to Underwriting Strategy

- Only a third of the program administrators polled see predictive modeling as extremely important to their underwriting strategy. For 44 percent of the respondents, predictive modeling is somewhat important to their underwriting strategy. Seventeen percent feel it is important, but they do not currently employ predictive modeling. The remaining 9 percent feel it is not at all important.

Impact on Program Profitability

- There are mixed views about the impact of predictive models on program profitability. Only 23 percent saw a positive change. Of these program administrators, 10 percent said there was a 5 to 10 percent positive change, 8 percent saw a 15 percent plus positive change, and 5 percent reported a 10 to 15 percent positive change. Six percent of the respondents said there was a negative change, while 16 percent said there was negligible change. Twenty-eight percent of the respondents said the question is not applicable to them, while the remaining 27 percent had no view.

- Seventy-three percent of carriers polled use program analytics, 17 percent do not, while the remaining 10 percent had no view. For those who use program analytics, some mentioned that they are still in the initial stages of application and could not provide details of initial results. Some carriers reported good initial results, saying program analytics has enabled them to share better information to administrators.

M&A

- More than half of the administrators surveyed have no plans to acquire other program administrators in the foreseeable future. Twenty percent of those polled said there is a plan to acquire within the next year, 16 percent within the next two years, and 12 percent within the next three years.

- After dropping from 53 percent in 2012 to 43 percent in 2013, the number of administrators looking to acquire other firms anytime soon in the foreseeable future increased to 48 percent in 2014. As would be expected, the larger firms exhibited a greater tendency to acquire other program administrators.

- Asked if current valuations are preventing them from successfully acquiring, 90 percent of the administrators polled said no, while 10 percent said yes.

- Asked the same question, 66 percent of the carriers surveyed said current valuations are not preventing them from successfully acquiring, while 23 percent of the respondents said yes.

Challenges Faced by the Program Business

Like the rest of the insurance industry, the program business is faced with a host of issues and challenges.

- An analysis of administrators' comments show that the top issues for them are overcapacity, the soft market, and the reluctance of carriers to do start-ups and write new program business. Other issues identified were technology, attracting and retaining qualified personnel, and product differentiation.

- Like the program administrators, carriers were also asked about what they perceive to be the major issues and challenges facing the industry. The soft market and overcapacity were also identified as the top challenges. Other challenges mentioned were data collection and management, differentiation, and revenue growth.

Future of the Program Business

Administrators and insurers remain in sync about the future of the program business – it is positive and bright despite the many challenges it is faced with. Both groups, however, believe that this kind of future will only be sustained if certain improvements will be made in the way business is conducted.

- Comments show that program administrators understand the need to be better at what they do to ensure the industry's continued success. "Over the coming years, program administrators are going to have to become better technicians than they have in past. Just knowing about an industry is not going to be enough. You have to know more about all aspects of the underwriting, claim admin and analytics than your carrier," one respondent said. Another program administrator polled share this belief, saying "Be better than the carrier at what you do so they realize that you add value."

- Some administrators surveyed pointed to the importance of securing the commitment of carriers and making sure that administrators and carriers are on the same page and trust each other.

- A number of administrators also underscored the importance of pursuing differentiation in order to succeed.

- Qualitative responses also highlight program administrators' recognition of how improved data collection can further boost success for the industry. Carriers also recognize the key role they play in improving data collection and management processes.

- Carriers remain confident in the program model.

Program Administrators

Demographics

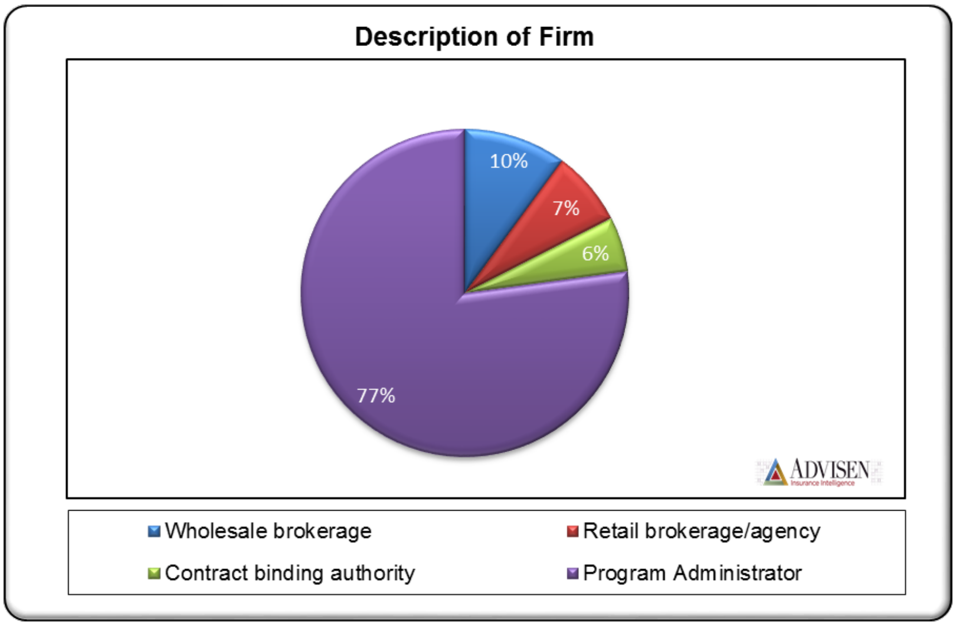
One hundred fifty-six program administrators responded to ***The TMPAA State of Program Business Study 2015***. This compares to 181 participants in the 2014 poll and 214 participants in the 2013 survey. There were 190 participants in 2012 survey and 92 respondents during the inaugural survey in 2011.

Respondents vary in terms of number of programs administered, revenues, and gross premiums written. These differences are key to understanding specific details about the survey participants' views and practices.

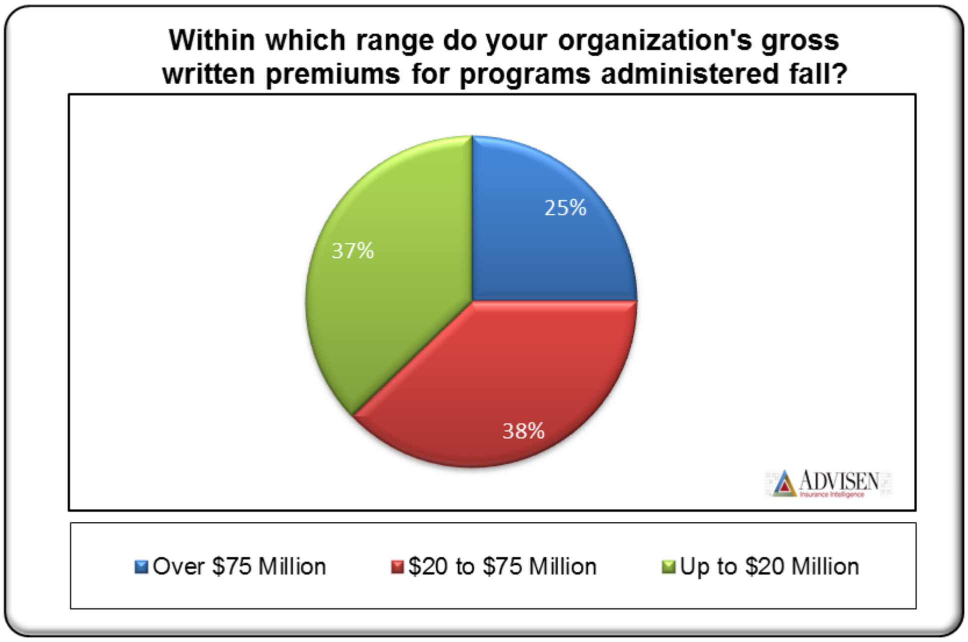
In analyzing the survey results, Advisen segmented the participants into three roughly equally sized groups based on premium volume. The smaller companies are those with gross premiums of up to $20 million. The mid-sized firms are those with gross premiums of between $20 million and $75 million, while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

Program Administrator Information

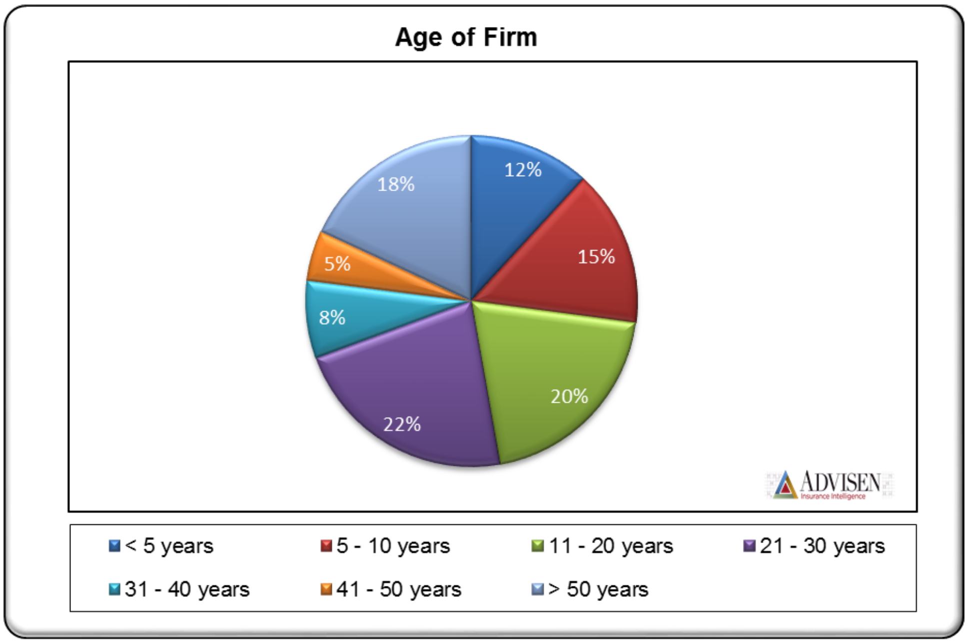
While all respondents administer at least one program, the majority of respondents (77%) reported that Program Administrator best describes their firm. Ten percent describe themselves as Wholesale Brokerage, 7 percent as retail brokerage/agency, and 6 percent as a Contract Binding Agency.



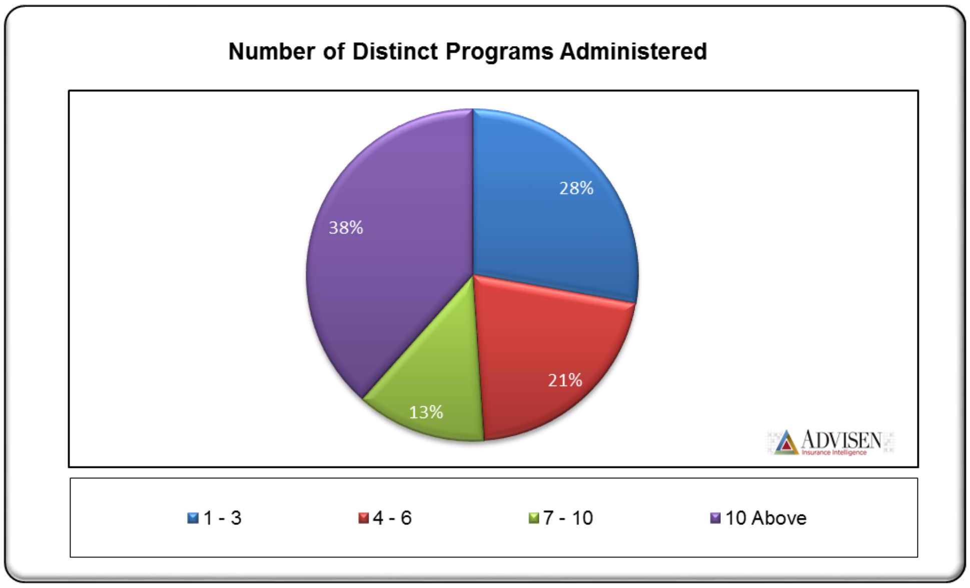
Thirty-eight percent of the administrators polled say their total gross written premiums for programs is $20 to $75 million, 37 percent say over $75 million, while the remaining 25 percent say up to $20 million.



In terms of longevity in the program business, 22 percent said their firm is 21-30 years old, 20 percent are in the 11-20 years bracket, and 18 percent belong to the more than five decades group. Fifteen percent said their firm is between 5-10 years old, 12 percent ticked the less than five years bracket, 8 percent said their firm is between 31-40 years old, and 5 percent said their firm is between 41-50 years old.



Unlike the previous surveys, when a majority of respondents came from small firms in terms of the number of distinct programs they administer, this year's survey have a greater number of mid-sized and bigger players. Nearly 40 percent of the respondents administer more than 10 programs. This compares to only 8 percent in the previous survey. Twenty-eight percent of the respondents administer 1 to 3 programs, 21 percent administer 1 to 6 programs, and 13 percent administer 7 to 10 programs.



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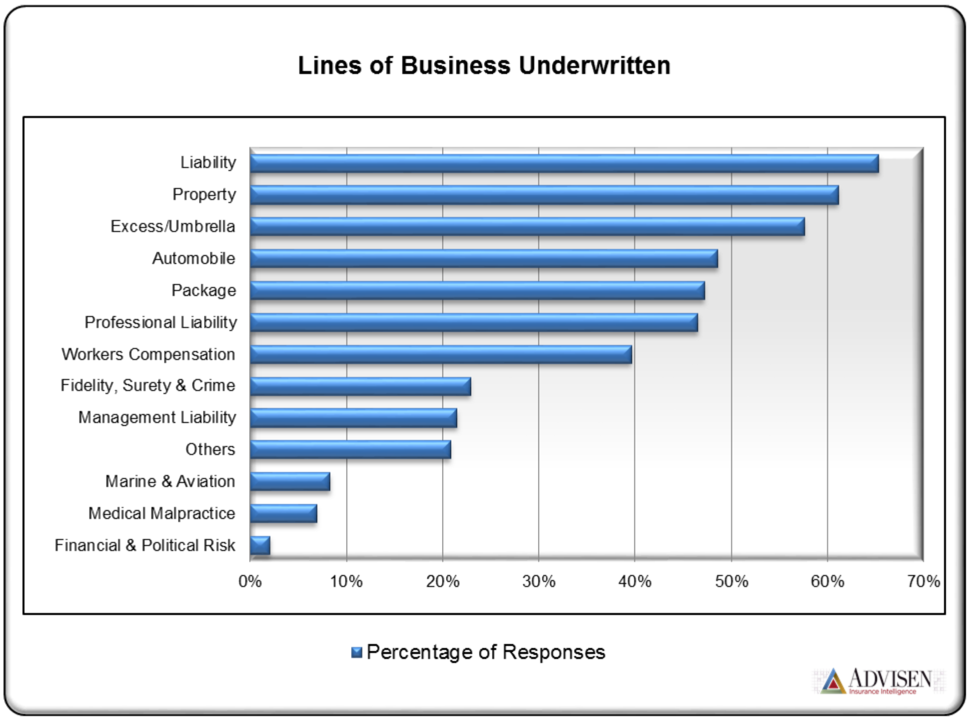
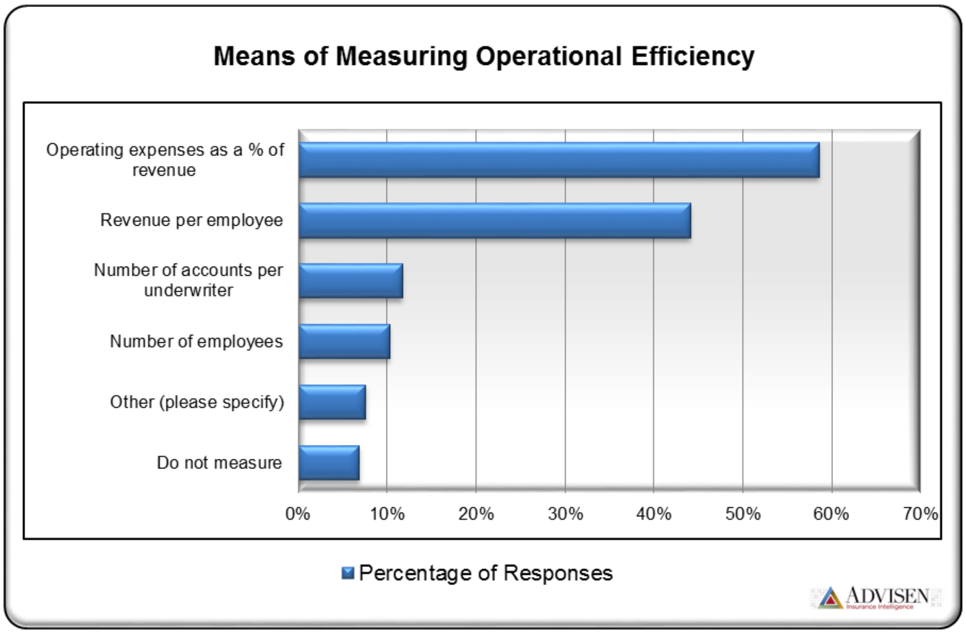
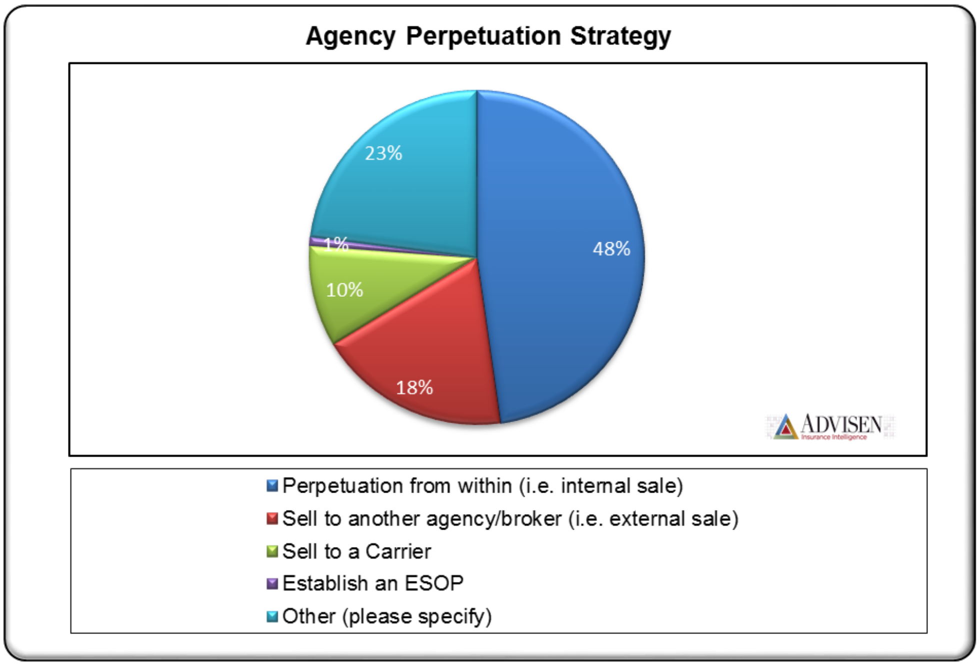


Operational efficiency is defined as managing to a higher profit level – total revenue – by controlling expenses. In the survey, administrators were asked how their firm measure operational efficiency. Fifty-nine percent of respondents measure operating expenses as a percentage of revenue, 44 percent measure it through revenue per employee, 12 percent do so by the number of accounts per underwriter, and 10 percent measure it by the number of employees. Eight percent of the administrators polled mentioned using other means like operating margin; profit margin; earnings before interest, tax, depreciation and amortization (EBITDA); margin on SPTI, and net operating revenue. The remaining 7 percent do not measure their operating efficiency.



Agency Perpetuation Strategy

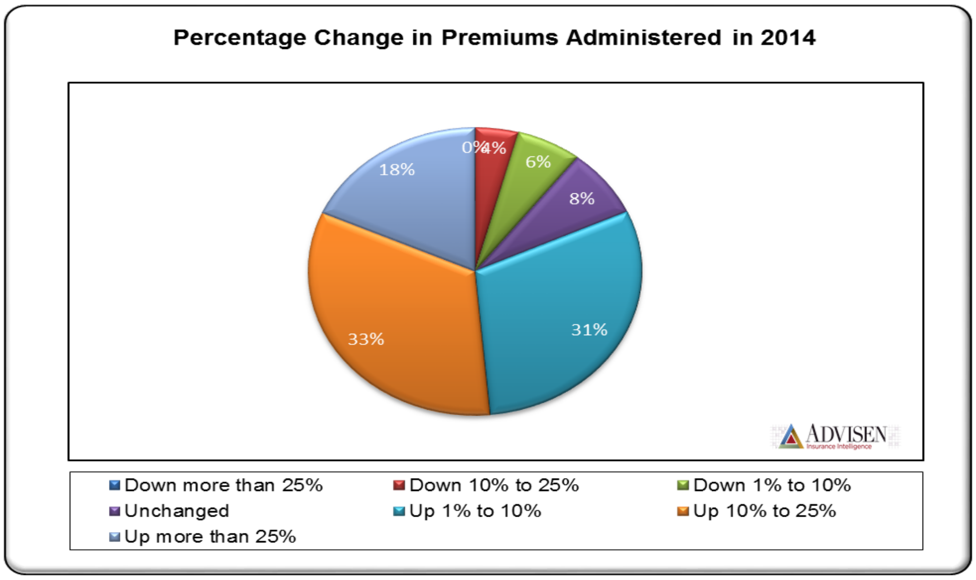
Survival in any business requires a well-thought-out perpetuation plan. Having a sound plan enables firms to take advantage of available market opportunities and plan for any factors that may affect the future of a company. For 48 percent of those polled, perpetuation is conducted from within. This means using strategies like internal sale. Eighteen percent of administrators surveyed said they sell to another agency or broker, 10 percent sell to a carrier, and 1 percent established an Employee Stock Ownership Plan (ESOP). The remaining 23 percent mentioned other strategies including a financial partner, a wholly owned subsidiary, or private equity.



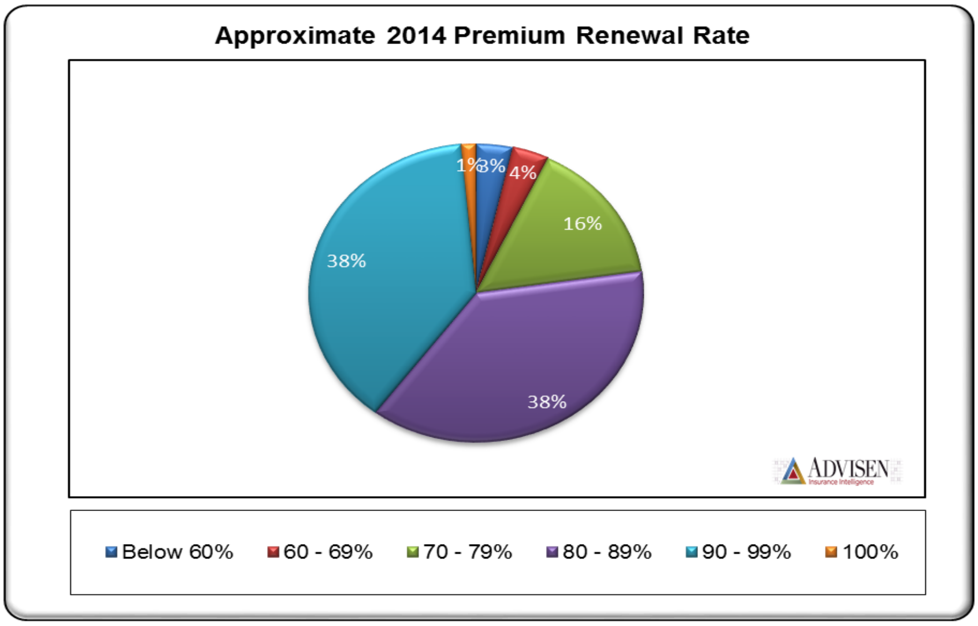
Program Business Continues to Report Solid Performance

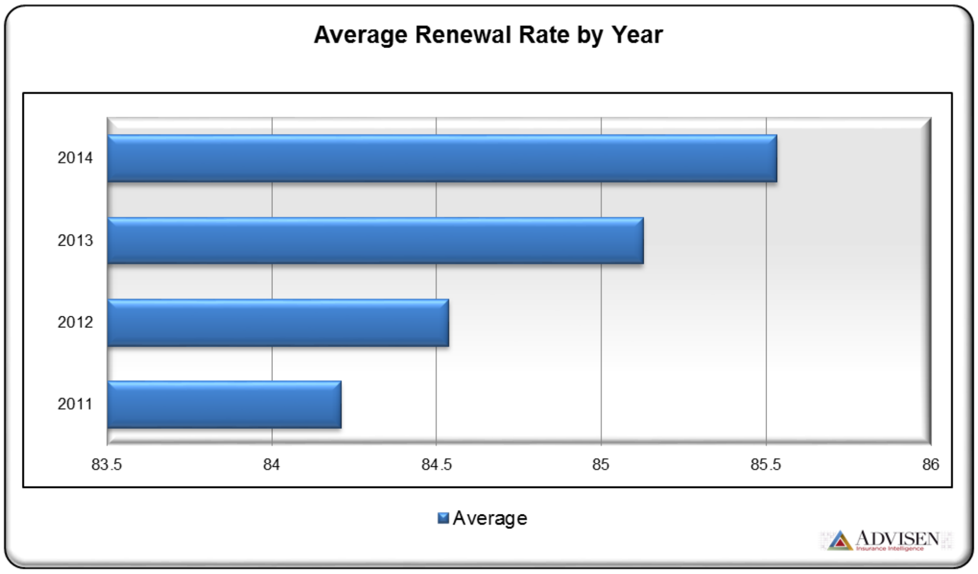
How did the program business fare in 2014? Responses from program administrators show that this segment of the P&C market continued to post upbeat figures for premiums, renewal rates, and revenues.

The number of administrators who reported increases in premiums rose from 52 percent in 2010 to 72 percent in 2011 to 82 percent in 2012 and 2013. The figure remains at 82 percent for 2014. Administrators who reported premium increases of more than 25 percent remain unchanged at 18 percent. Those who recorded increases of 10 to 25 percent rose from 32 percent in 2013 to 33 percent in 2014. Those who reported increases of 1 to 10 percent declined from 33 percent in 2013 to 31 percent in 2014. Only 10 percent of respondents said their premiums declined in 2014 compared to 11 percent in 2013. Eight percent of respondents reported no change in premium in 2014 compared to 5 percent in 2013.

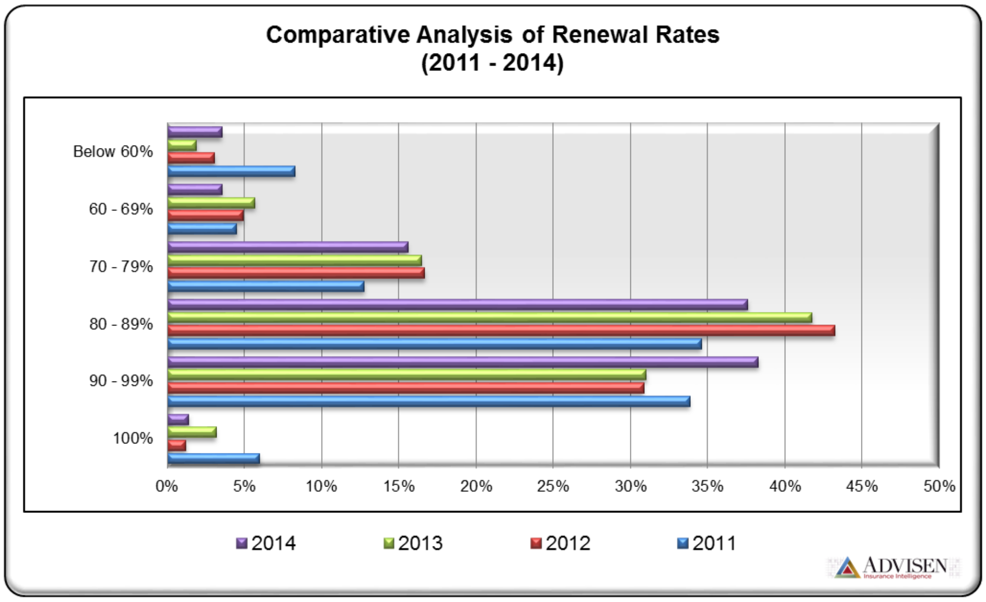


As with the previous four surveys, administrators polled also continued to report a high renewal rate in 2014 – 85.5 percent compared to 85 percent in 2013.

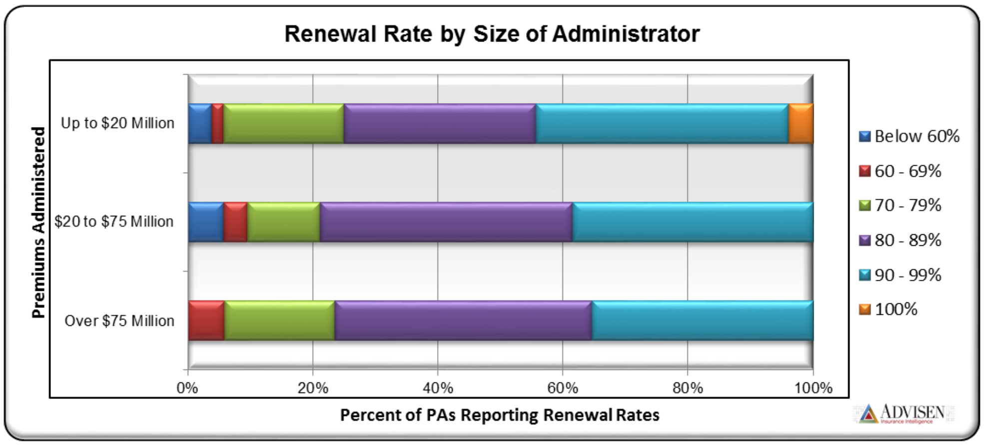




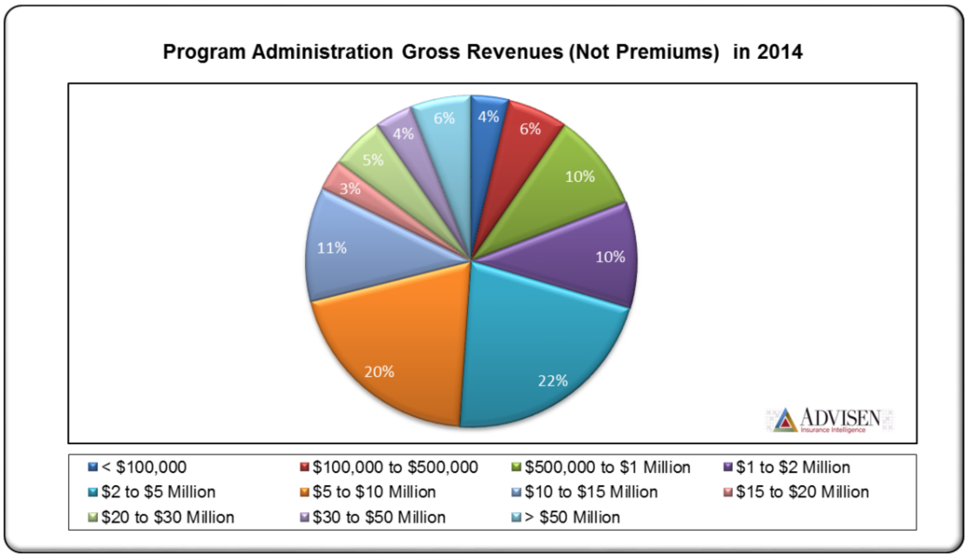
The percentage of administrators reporting a 100 percent renewal rate declined, but those reporting a renewal rate of between 90 and 99 percent increased significantly.

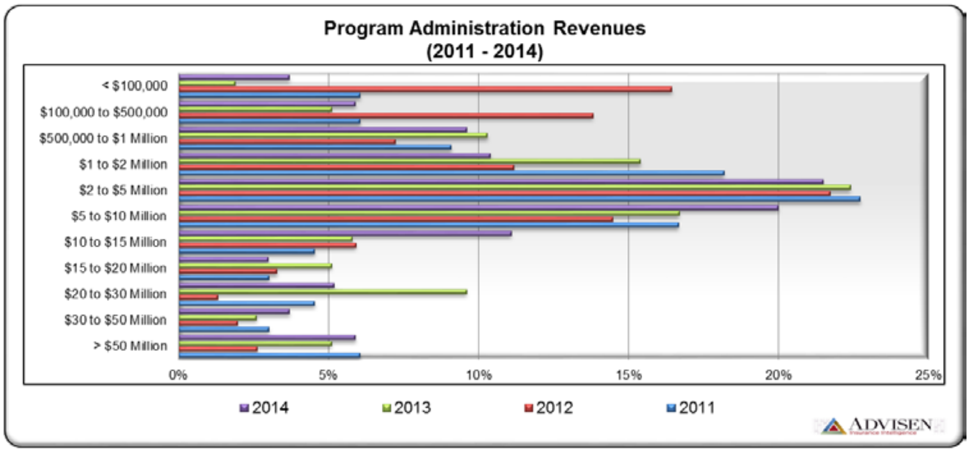


Smaller firms had the greatest proportion of programs with over 90 percent renewal rates.

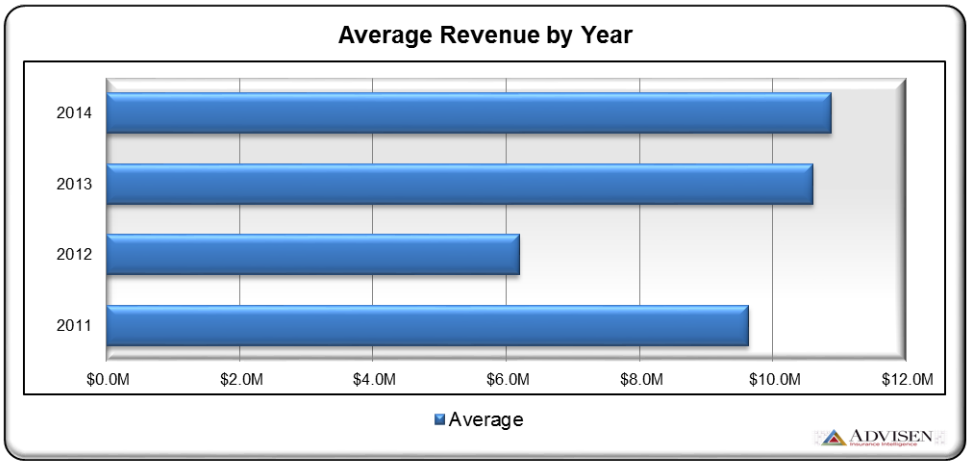


Fifty-four percent of program administrators polled are from small firms with gross program administration revenues of less than $5 million. This compares to 70 percent in the previous survey. The percentage of firms reporting revenues of between $5 million and $30 million increased marginally from 38 in the previous survey to 39 percent in the 2015 survey. Those who reported revenues of more than $30 million also increased from 8 percent in 2014 survey to 10 percent in the 2015 poll.



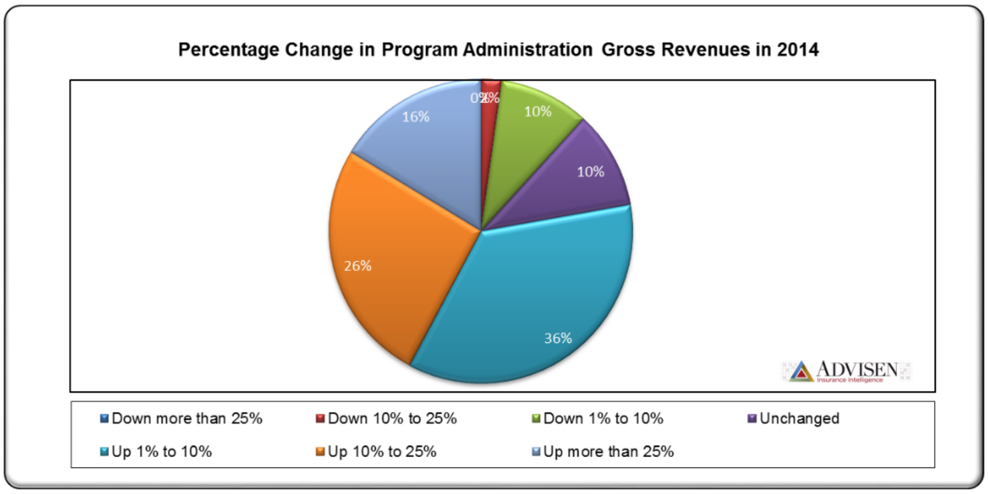


Average respondent revenue increased from $10.6 million in 2013 to $10.9 million in 2014.

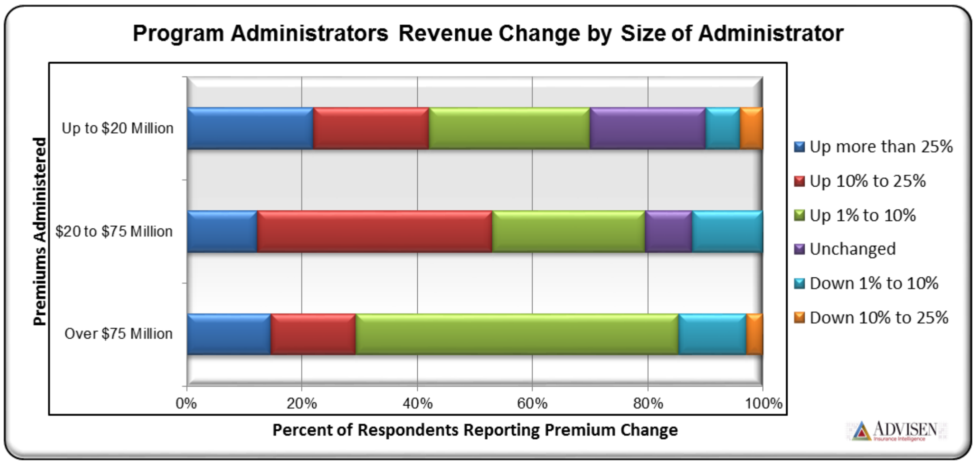


Seventy-eight percent of respondents reported increases in program administration gross revenues in 2014, slightly lower than the 81 percent recorded in 2013. Twelve percent reported declines in 2014 – slightly higher than the 11 percent recorded in 2013. Ten percent of respondents reported no changes, compared to 8 percent in the previous survey.

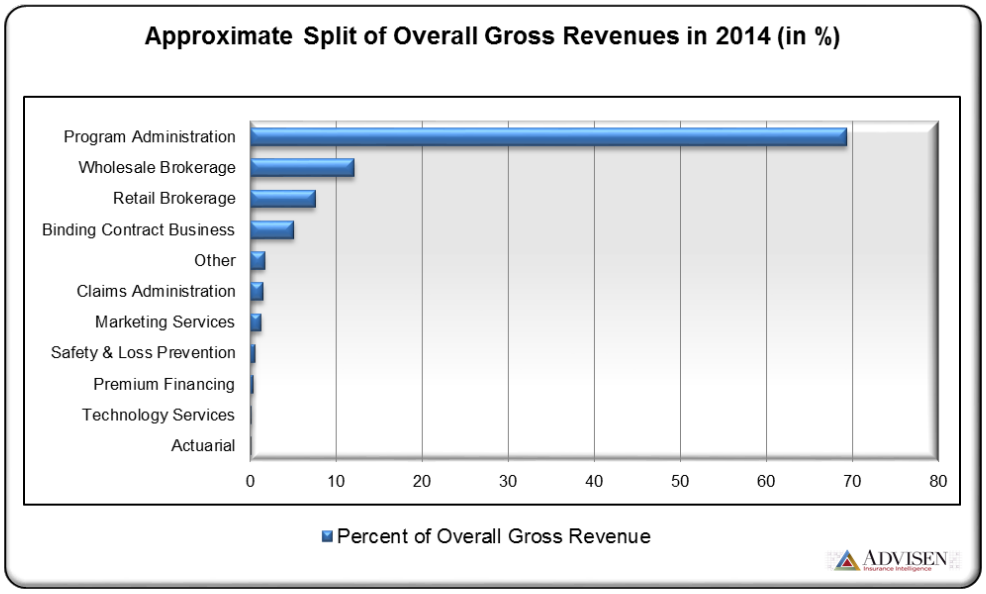
Of those who reported increases, 36 percent says program administration gross revenues rose 1 to 10 percent, 26 percent saw increases of between 10 to 25 percent, while 16 percent reported increases of more than 25 percent. Among those who reported declines, 10 percent say gross revenues dropped 1 to 10 percent, while 2 percent saw declines of between 10 and 25 percent.

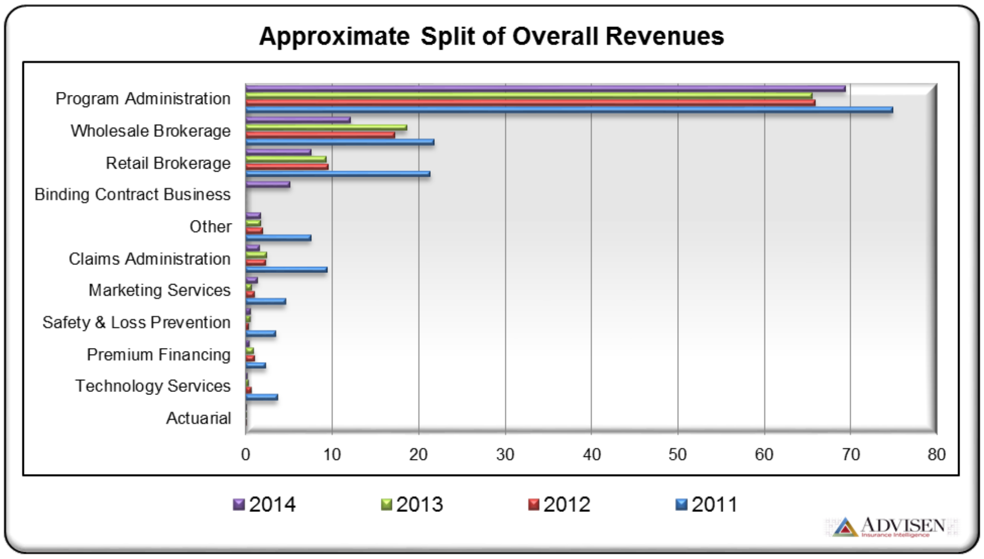


Unlike the previous year when larger firms fared better in terms of change in gross revenues, mid-sized firms or those with revenue of between \$20 million to \$75 million reported the highest proportion of revenue change over 10% in 2014.

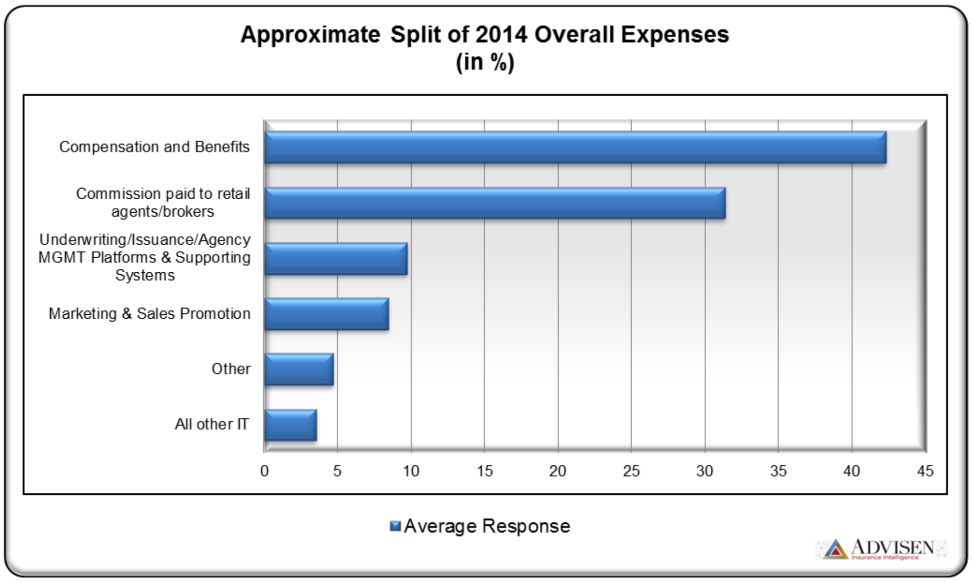


Consistent with previous surveys, the biggest segment in terms of the approximate split of overall revenues was program administration. Wholesale brokerage and retail brokerage ranked second and third, respectively. This is roughly consistent with prior survey results.



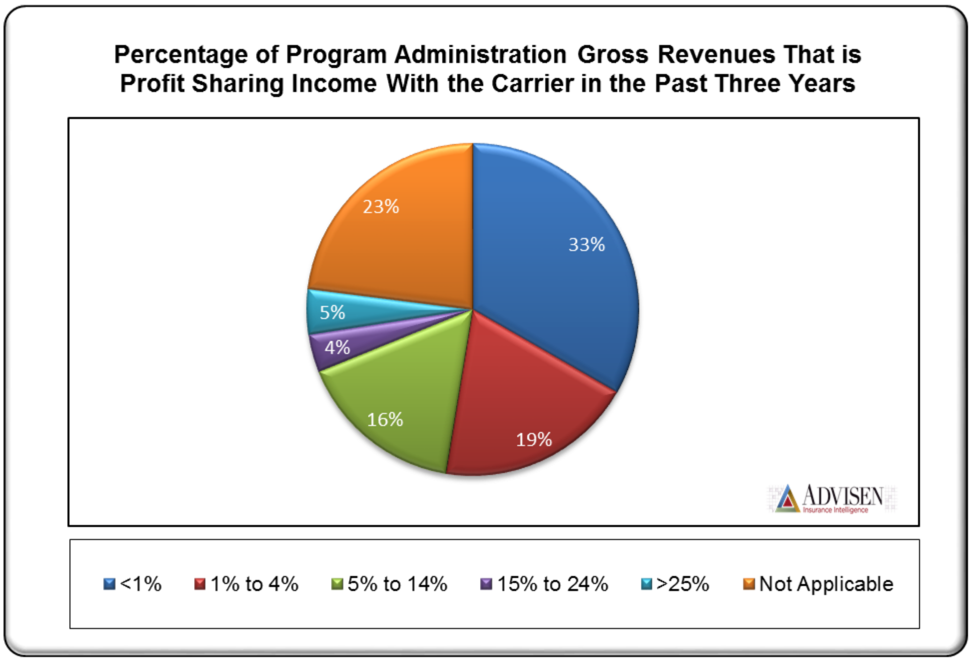


At 42 percent, compensation and benefits was the biggest segment of the pie in terms of the approximate split of overall expenses for 2014. Commissions paid to retail agents and brokers came in second with 31 percent. Ten percent went to underwriting/issuance/agency management platforms and supporting systems. Smaller portions went to marketing and sales promotion, all other IT expenses, and other expense items.

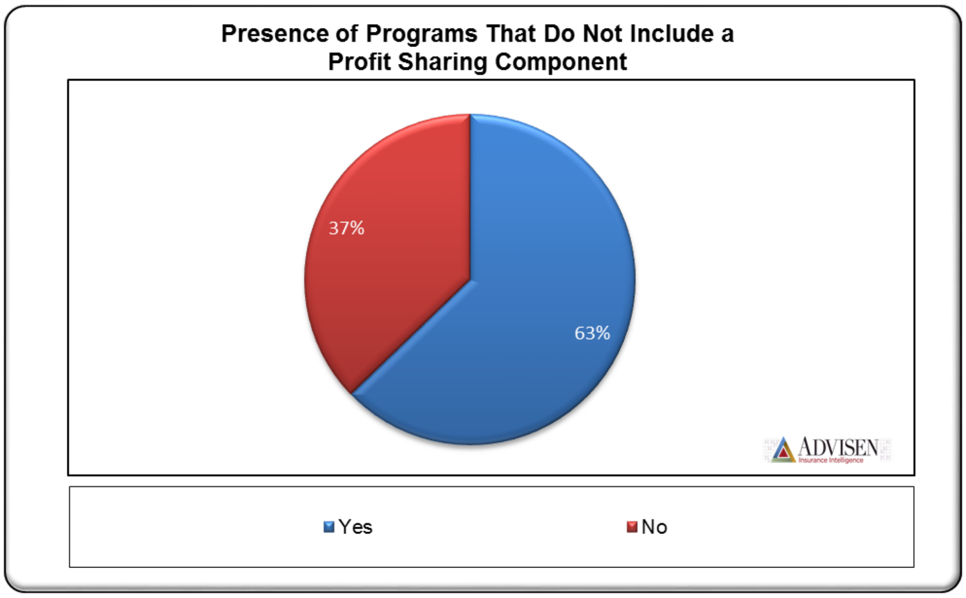


Profit sharing programs are among ways by which insurers align their interests with program administrators. If the program is profitable, both groups benefit from its success.

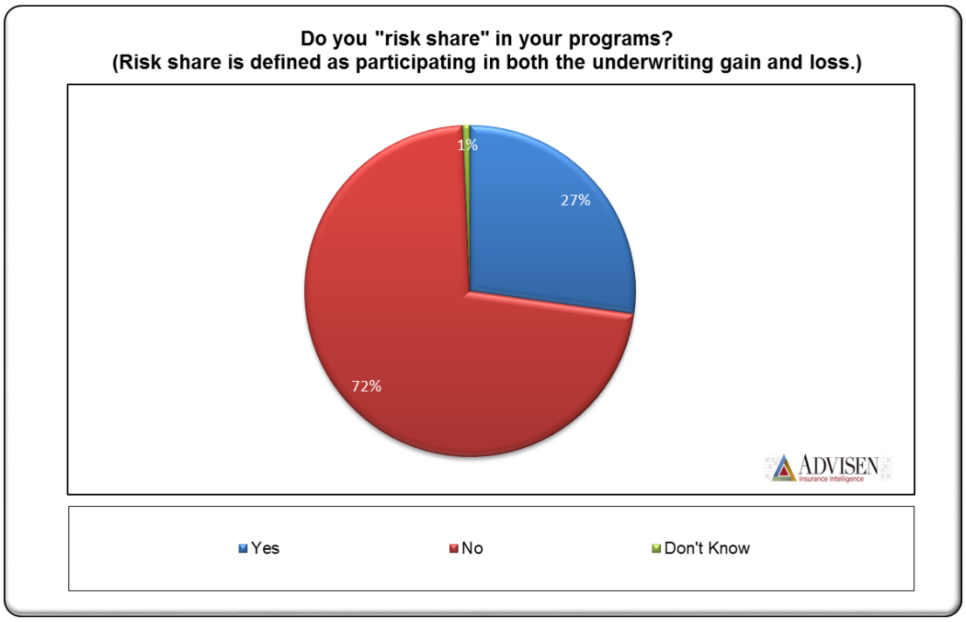
Responses to the question on the portion of gross revenue represented by profit sharing income with the carrier revealed increases in percentage. The percentage of administrators reporting profit sharing income of up to 1 percent increased from 24 percent in 2013 to 33 percent in 2014. On the other hand, the percentage of those reporting profit sharing income of 1 percent to 4 percent dropped from 27 percent in 2013 to 19 percent in 2014. Those reporting profit sharing income of 5 to 14 percent also declined from 19 percent to 16 percent. Those who reported profit sharing income of 15 to 24 percent and more than 25 percent barely budged between 2012 and 2013. A fourth of the respondents said the question is not applicable to them.



Respondents were also asked if they have any programs that do not include a profit sharing component. Many of those polled (63 percent) said they do have programs like this, while 37 percent said they do not have any programs that do not include a profit sharing component.



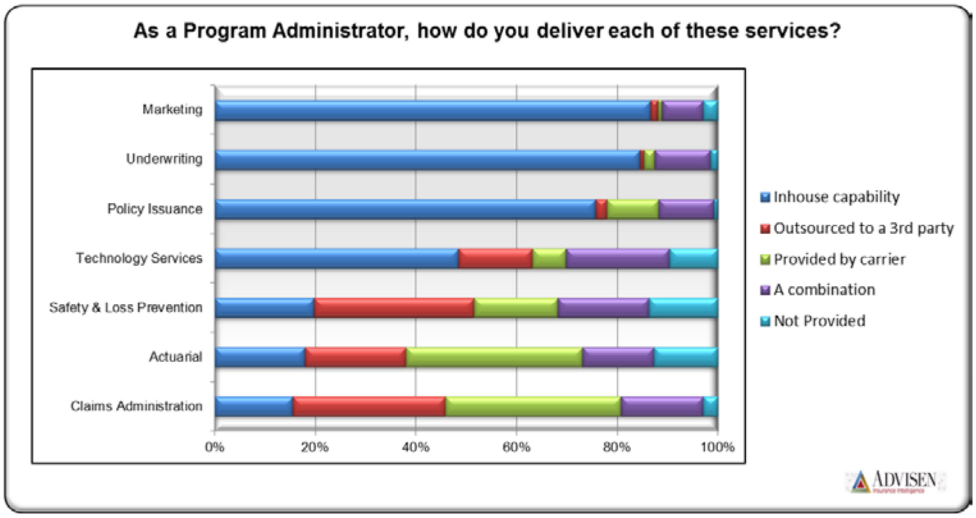
In this survey, risk sharing is defined as participating in both the underwriting gain and loss. Administrators were asked if they engage in risk sharing in their programs. Seventy-two percent of those polled said they do not risk share in their programs. Twenty-seven percent said they do engage in risk sharing. For one carrier, “Risk sharing is key to program success and PAs should embrace this concept. Reduced up front frictional costs lead to higher margin profit contingencies on the back end.”

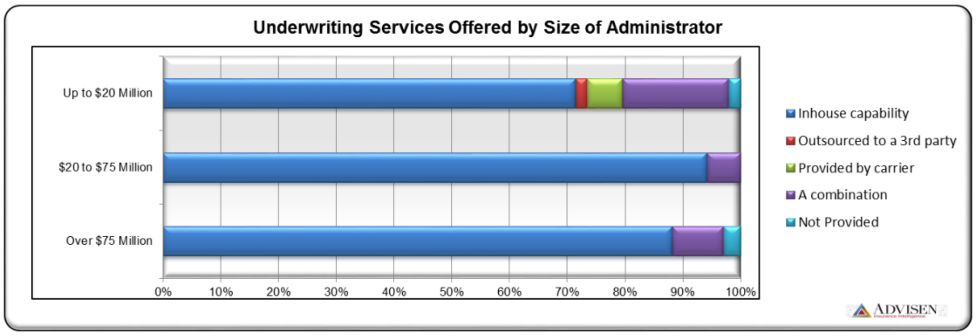


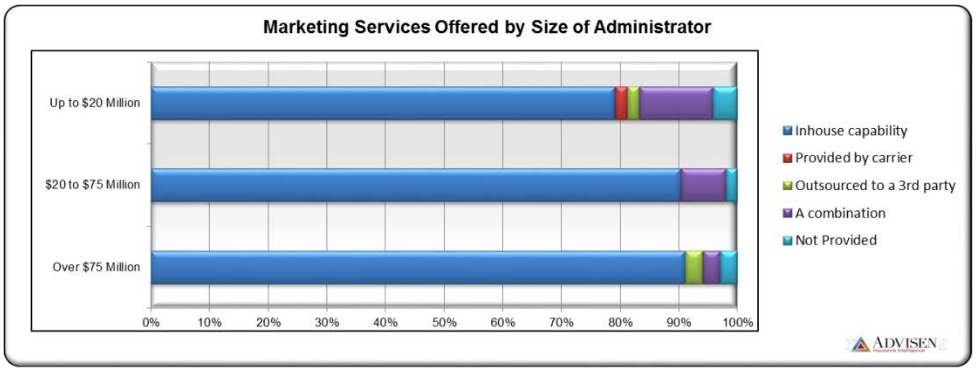
Services Offered by Size of Administrator

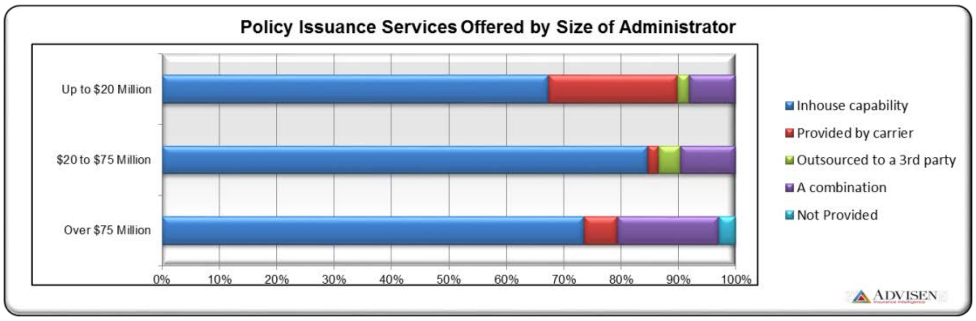
In reviewing whether the services provided vary significantly by the size of the administrator, the survey found that underwriting, marketing, policy issuance, and technology services tend to be provided in-house across all administrator sizes. This is consistent with the results of the previous survey.

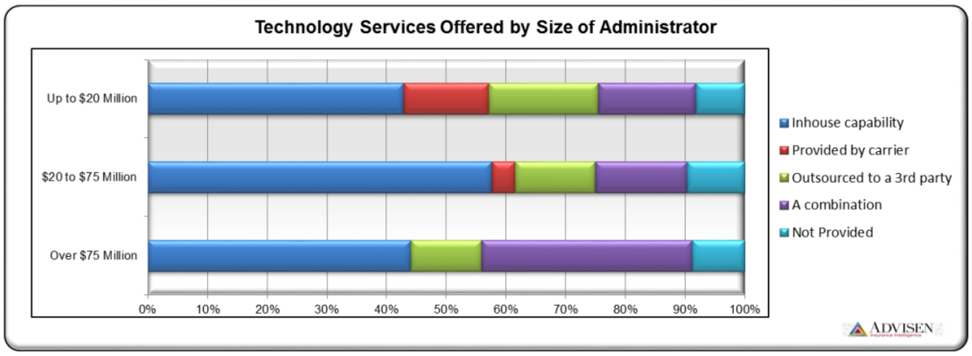
In the case of actuarial services, the large firms tend to provide it in-house, mid-sized firms tend to provide it through its carrier or outsource it to a third-party provider, and smaller firms provide it through the carrier. Safety and loss prevention tend to be outsourced through a third-party provider across all revenue groups. Claims administration tends to be provided by a carrier or outsourced to a third-party provider. This trend is seen across all revenue brackets.

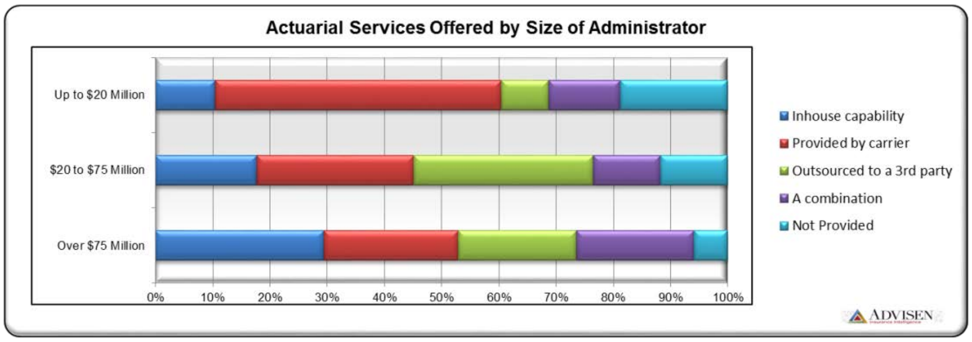


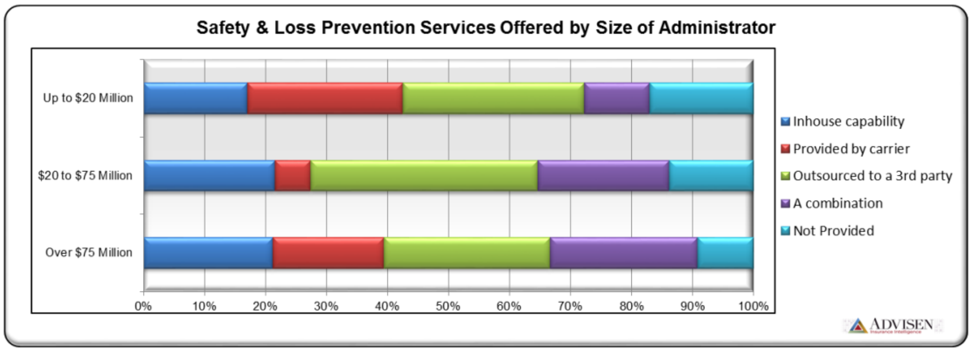

Underwriting Services Offered by Size of Administrator
Up to $20 Million
$20 to $75 Million
Over $75 Million
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Inhouse capability
Outsourced to a 3rd party
Provided by carrier
A combination
Not Provided
ADVISEN

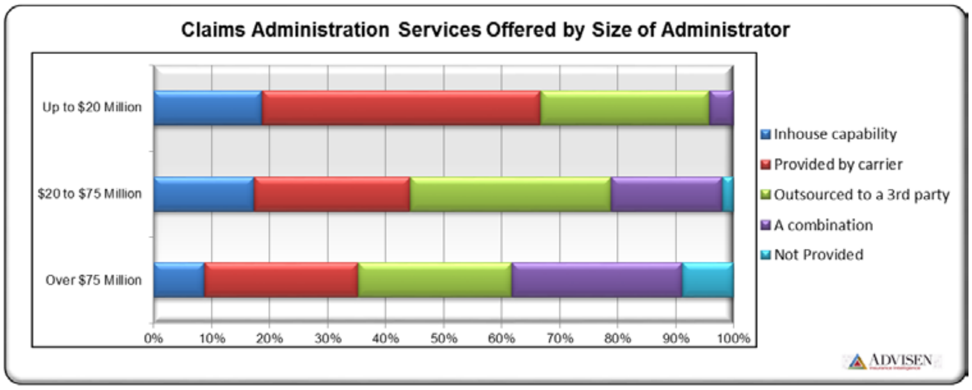

Marketing Services Offered by Size of Administrator
Up to $20 Million
$20 to $75 Million
Over $75 Million
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Inhouse capability
Provided by carrier
Outsourced to a 3rd party
A combination
Not Provided
ADVISEN


Policy Issuance Services Offered by Size of Administrator
Up to $20 Million
$20 to $75 Million
Over $75 Million
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Inhouse capability
Provided by carrier
Outsourced to a 3rd party
A combination
Not Provided
ADVISEN


Technology Services Offered by Size of Administrator
Up to $20 Million
$20 to $75 Million
Over $75 Million
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Inhouse capability
Provided by carrier
Outsourced to a 3rd party
A combination
Not Provided
ADVISEN


Actuarial Services Offered by Size of Administrator
Up to $20 Million
$20 to $75 Million
Over $75 Million
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Inhouse capability
Provided by carrier
Outsourced to a 3rd party
A combination
Not Provided
ADVISEN


Safety & Loss Prevention Services Offered by Size of Administrator
Up to $20 Million
$20 to $75 Million
Over $75 Million
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Inhouse capability
Provided by carrier
Outsourced to a 3rd party
A combination
Not Provided
ADVISEN


Claims Administration Services Offered by Size of Administrator
Up to $20 Million
$20 to $75 Million
Over $75 Million
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Inhouse capability
Provided by carrier
Outsourced to a 3rd party
A combination
Not Provided
ADVISEN

Insurers

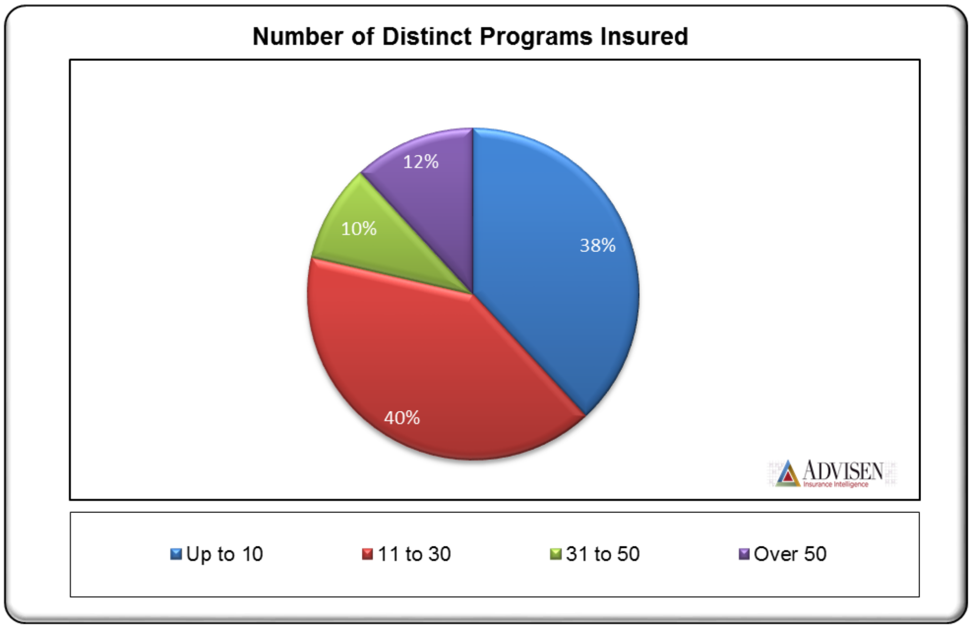
Demographics

To give a carrier perspective, insurer members of the TMPAA were invited to participate in the survey. 52 insurers completed parts, if not all, of the sections in the questionnaire. This compares to 45 carrier respondents in 2013, 43 participants for both 2012 and 2013, and 34 carrier respondents in 2011.

Program Information

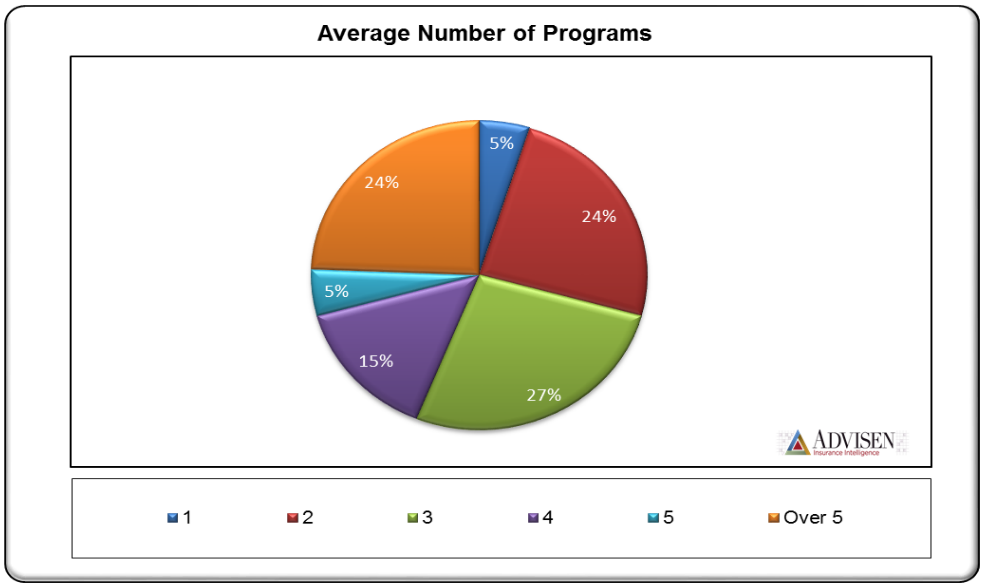
All insurers polled identified themselves as insurance carriers active in the program space. TMPAA defines that as delegating binding and underwriting authority to program administrators with whom they have a contractual partnership. TMPAA identifies companies as program carriers if they have at least two current programs. All insurer respondents confirmed that they all have at least two current programs.

Forty percent of the carriers surveyed insure 11 to 30 distinct programs. Thirty-eight percent of the respondents insure up to 10 distinct programs, 12 percent insure more than 50 distinct programs, while 10 percent insure 31 to 50 distinct programs.

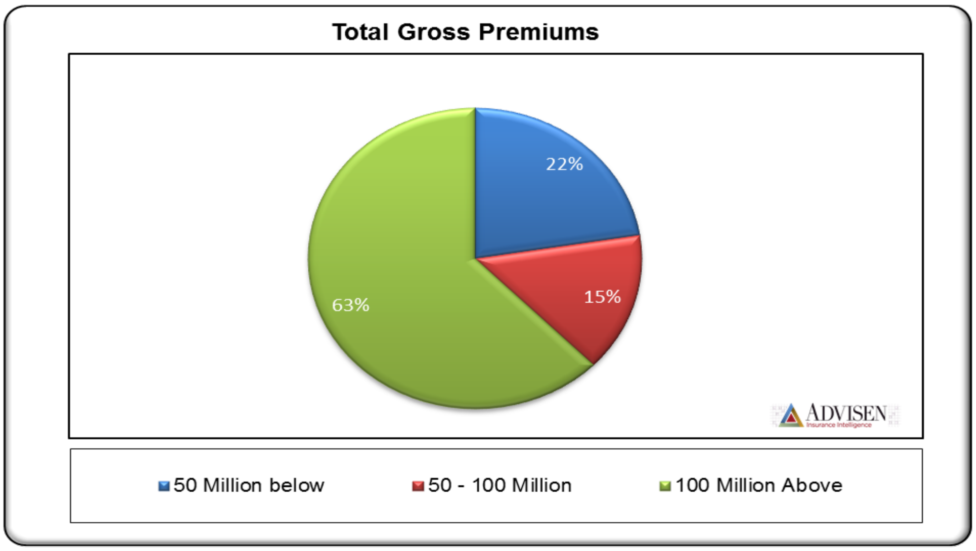


The average number of programs managed by each of the respondents' program underwriters is 4.

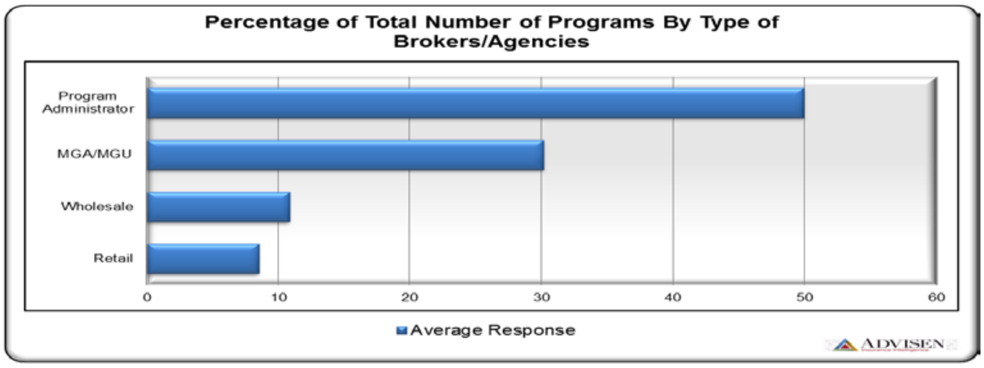
Twenty-seven percent of respondents have an average of 3 programs, while 24 percent have an average of 2 programs. Another 24 percent said they have more than 5 programs. Fifteen percent have an average of 4 programs, 5 percent have 1, and another 5 percent have 5.



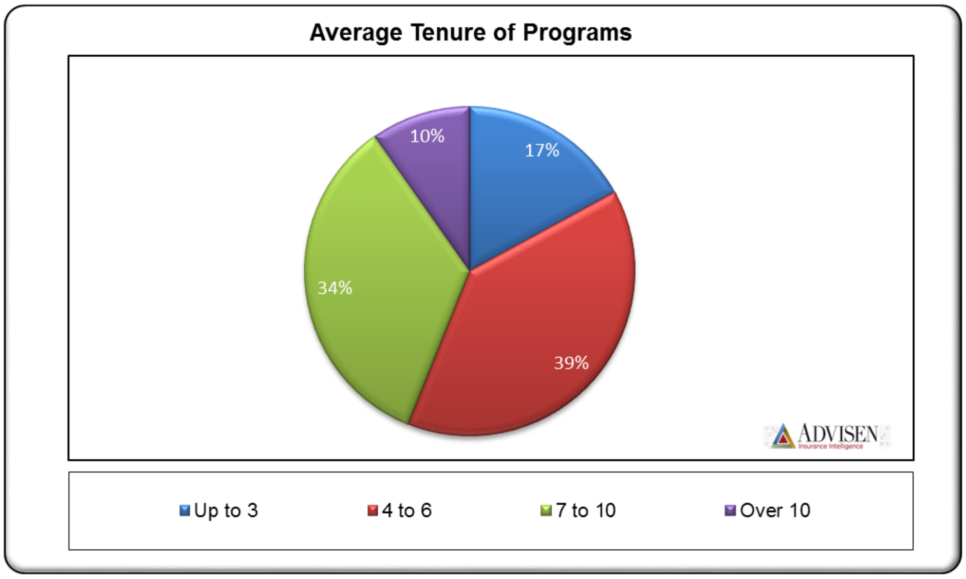
Sixty-three percent of the carriers polled reported having total gross premiums of $100 million and above, 22 percent say $50 million and below, while the remaining 15 percent report total gross premiums of $50 million to $100 million.



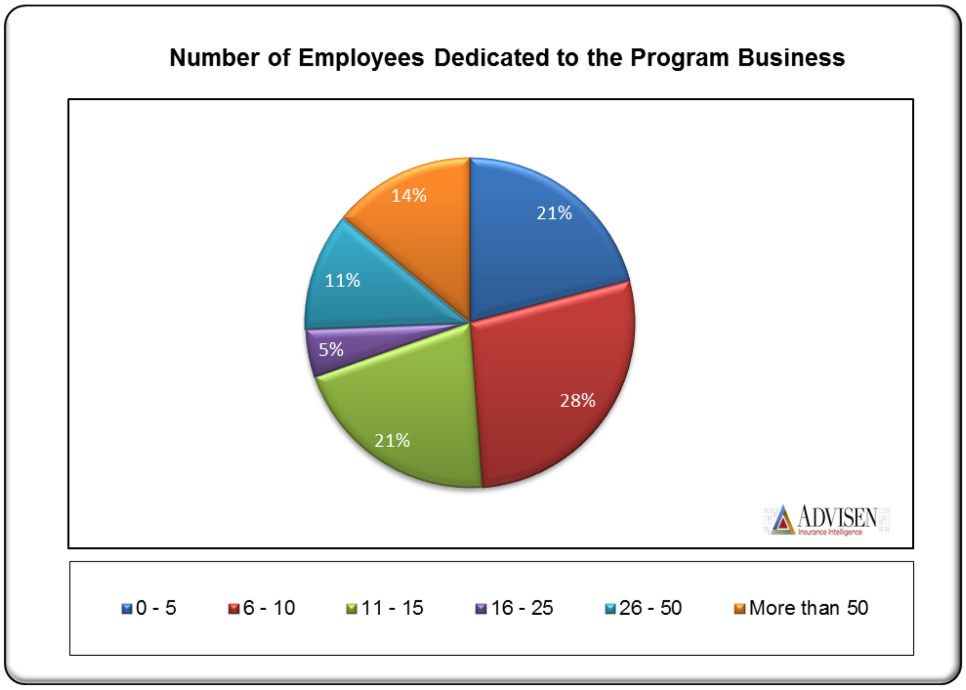
In terms of percentage of total number of programs by type of brokers/agencies, 50 percent come from program administrators, 30 percent come from MGAs/MGUs, 11 percent come from wholesale brokers/agencies, while 8 percent come from retail brokers/agencies.



Thirty-nine percent of carriers polled say the average tenure of their programs is 4 to 6 years, while 34 percent say 7 to 10 years. For 17 percent of carriers, the average tenure of programs is up to 3 years, while for the remaining 10 percent it is over 10 years.



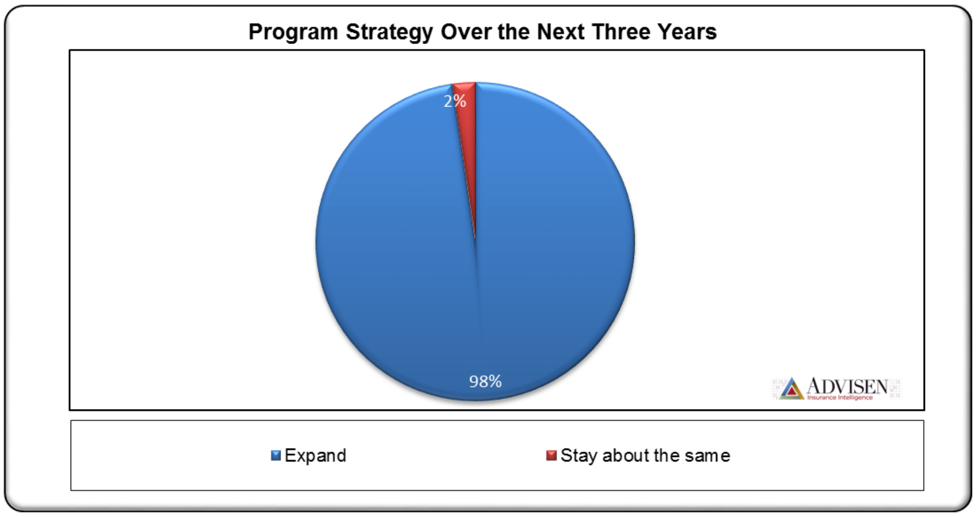
Twenty-eight percent of the carrier respondents have 6 to 10 employees, 21 percent employ 11 to 15 people, and another 21 percent have up to 5 employees. Fourteen percent said they have more than 50 employees dedicated to the program business, 11 percent said 26 to 50 people, and 5 percent have 16 to 25 employees.



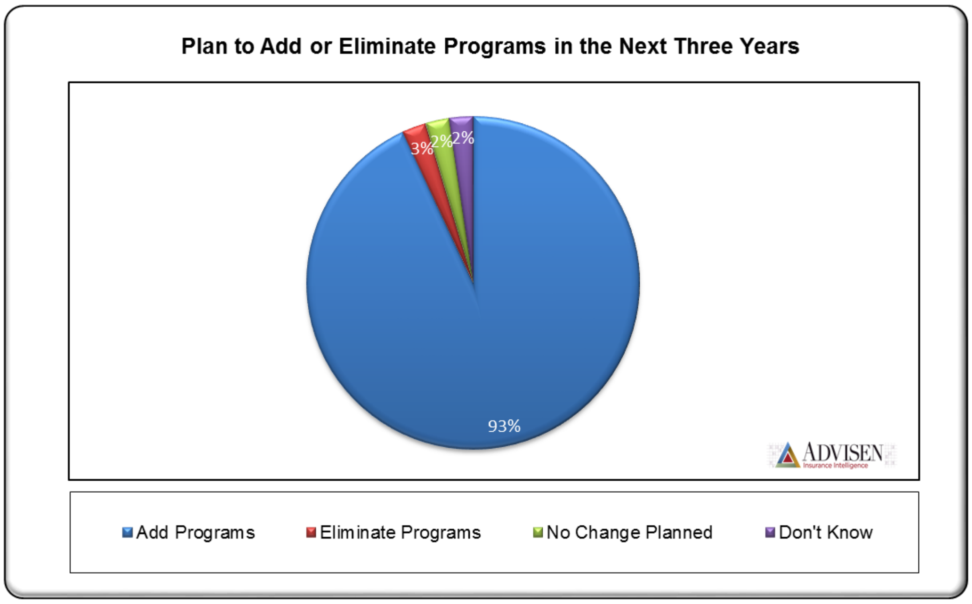
Program Strategy

As with the previous survey, the majority of carriers polled plan to expand within the next three years. Their program strategy also includes plans to add programs over that period.

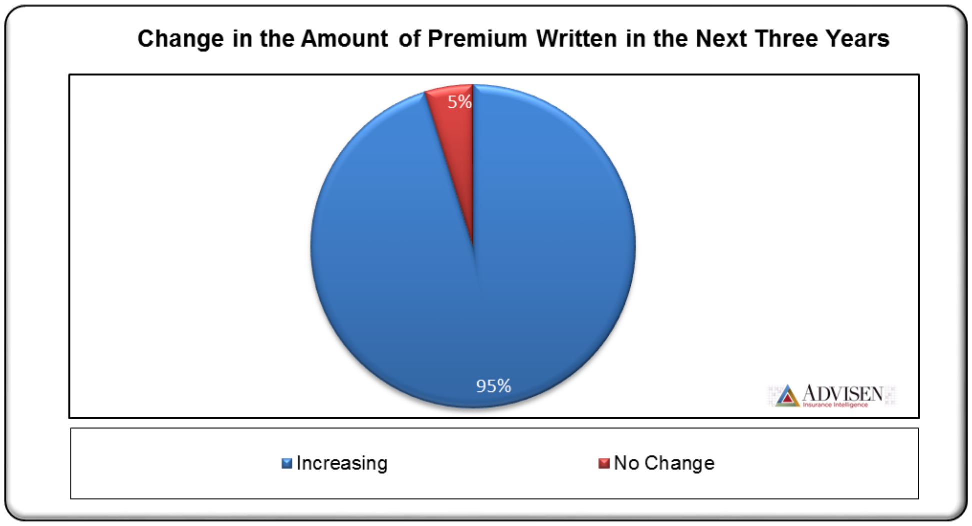
"As the quality of program business continues to improve, so does its prospects for ongoing expansion. In a softening market, program business can be an efficient way for carriers to grow from an expense perspective assuming that the overall program result is acceptable," one carrier said.



Respondents were asked if they plan to add or eliminate programs in the next three years. A whopping 93 percent said they intend to add programs in the given time frame. Only 3 percent said they intend to eliminate programs. Two percent said they do not see any change in programs in the next three years. Another 2 percent had no view.



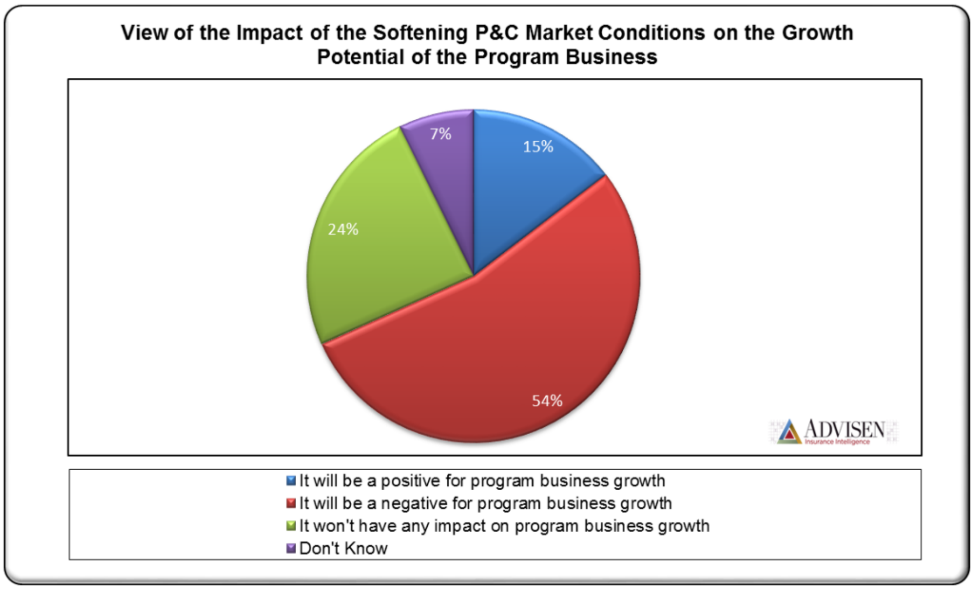
Ninety-five percent of the respondents said they anticipate increasing the amount of premium written in the next three years, while the remaining 5 percent anticipate no change.



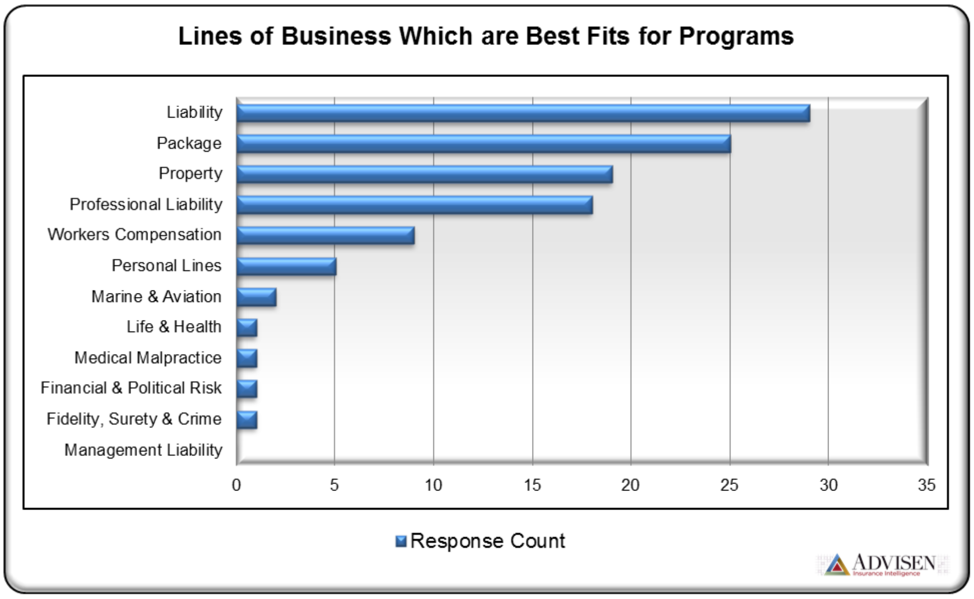
Industry Projection

Many respondents identified the continuing soft market conditions as one of the key challenges faced by the program business.

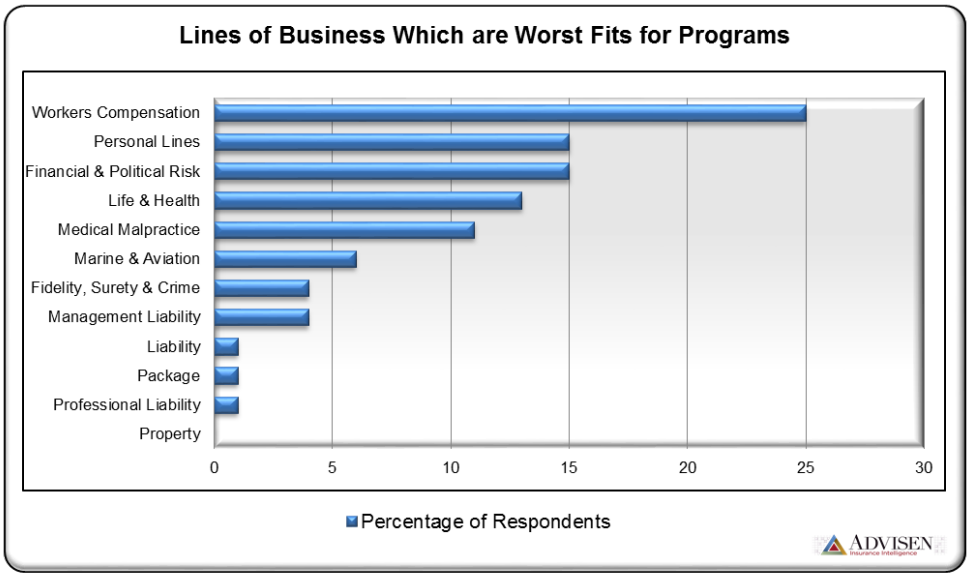
Asked about their views on the impact of the softening P&C market conditions on the growth potential of the program business, 54 percent of the insurers polled say that it will be a negative for program business growth, while 24 percent believe it won't have any impact on program business. Fifteen percent say it will be a positive for program business growth, while 7 percent had no view.



In terms of lines of business that they consider as best fits for programs, the top three answers given were Liability, Package, and Property. On the other hand, the worst fits mentioned were Workers Compensation, Personal Lines, and Financial and Political Risk.

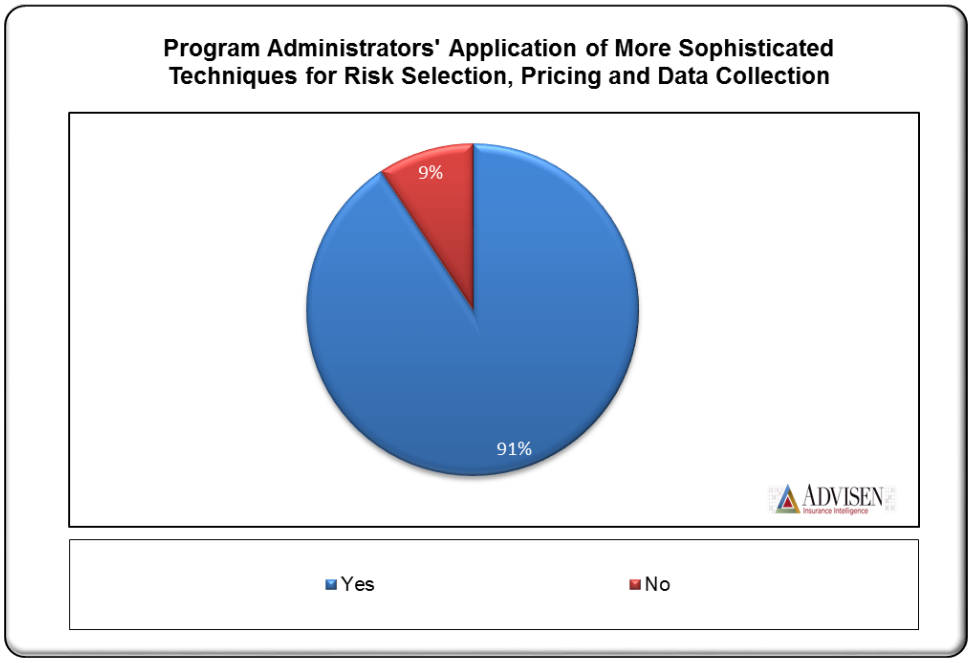


Carriers were also asked what lines of business are worst fits for programs. Twenty five respondents identified workers compensation as one of the worst fits for programs. Fifteen said personal lines. Another 15 said financial & political risk. Thirteen cited life and health. Eleven said medical malpractice. Six cited marine & aviation. Four cited fidelity, surety & crime. Another 4 respondents cited management liability.

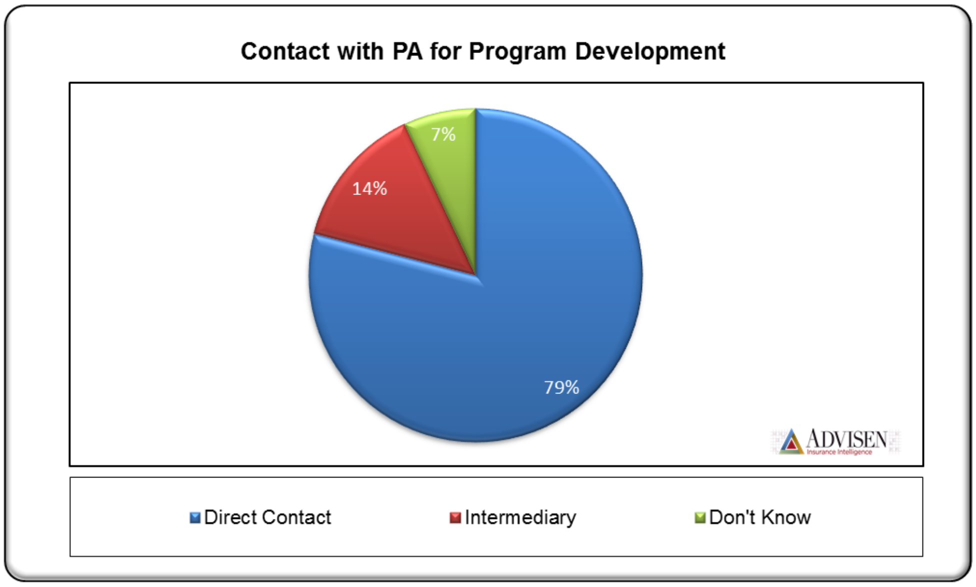


What is the opinion of carriers on whether program administrators apply more sophisticated (effective) techniques for risk selection, pricing and data collection now than five years ago? Majority, around 91 percent, said they do. Nine percent answered to the negative.

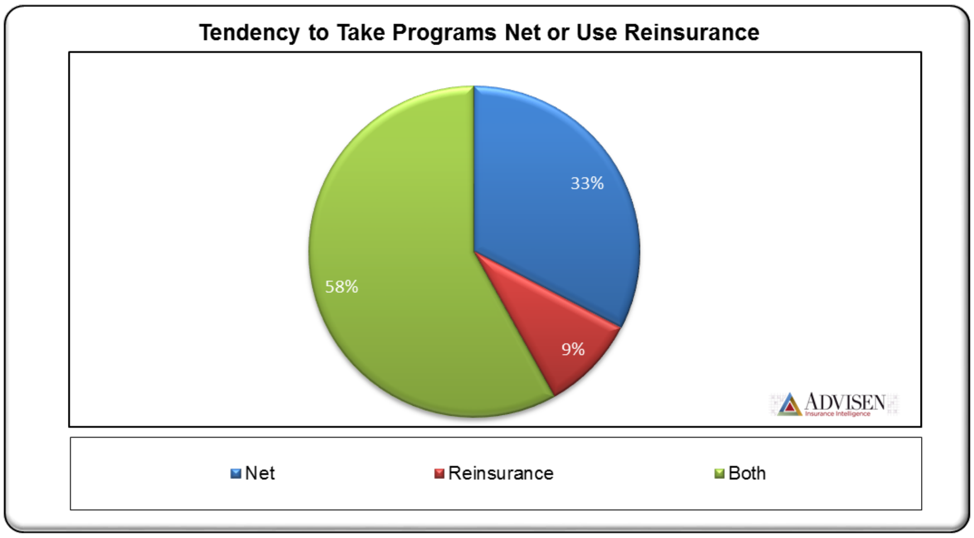
As with the previous poll, the majority of insurers surveyed say program administrators apply more sophisticated or effective techniques for risk selection, pricing and data collection compared to five years ago.



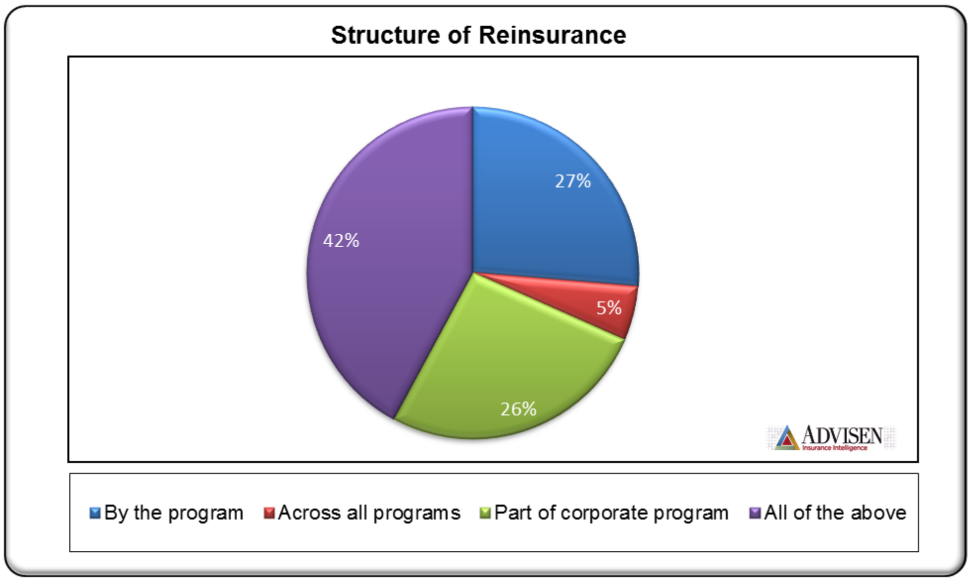
Unlike in the previous survey when all carriers surveyed said they prefer direct contact with program administrators rather than going through intermediaries, only 79 percent have the same preference in this year’s survey. Fourteen percent of those polled go through an intermediary, while the remaining 7 percent had no view.



Asked whether they have the tendency to take programs net or use reinsurance, 58 percent of the respondents said they use both, 33 percent said tend to take programs net, while the remaining 9 percent said they use reinsurance.



Of those who reported using reinsurance, 42 percent responded "all of the above," meaning structured by the program, across all programs, and part of a corporate program. Twenty-seven percent said it is structured by the program, while 26 percent said it is structured as part of a corporate program. The remaining 5 percent responded across all programs.



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

New Program Development

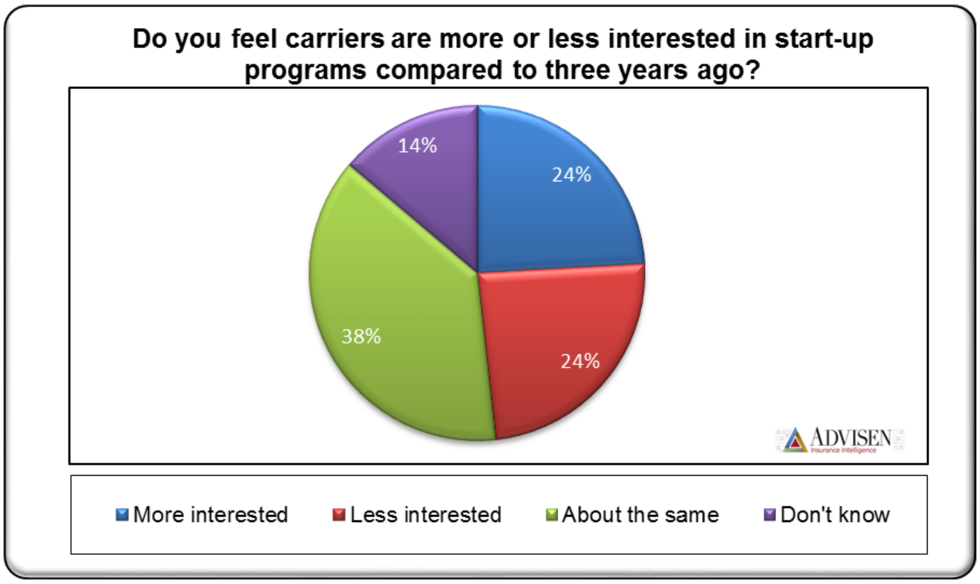
"NOBODY is interested in start-up programs."

This was the response of one program administrator said when asked to comment on trends encountered about start-up programs. According to the respondent, "Markets are just wanting to 'acquire' large books that have already been developed. If a PA does not have a pre-existing program equal to at least $5 million to be moved over within the first year, there is no interest whatsoever. As carriers are stepping all over each other to wine and dine 'the big boys' so they can shuffle the same chunks of market share back and forth between themselves, small and/or new PAs are being blocked entrance in the E&S arena."

Offering a carrier view on start-ups, one respondent said, "Nobody seems to want them. Lots of bad ideas out there. Too many retailers with a book who want to convert it into a program with no real competitive advantage."

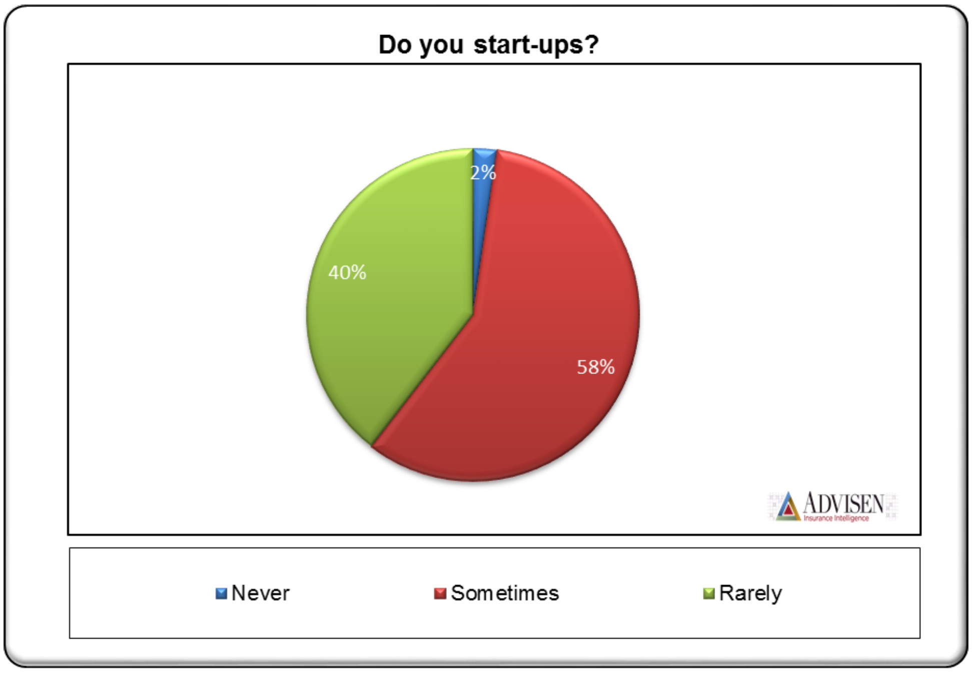
Year after year, some program administrators who respond to the annual TMPAA survey lament that carriers are not too keen on start-ups.

Are carriers more interested in start-up programs now compared to three years ago? Program administrators have mixed views. Thirty-eight percent of program administrators polled said the level of interest is about the same. A fourth of the respondents said carriers are more interested now, while another fourth said carriers are less interested. The remaining 14 percent had no view.

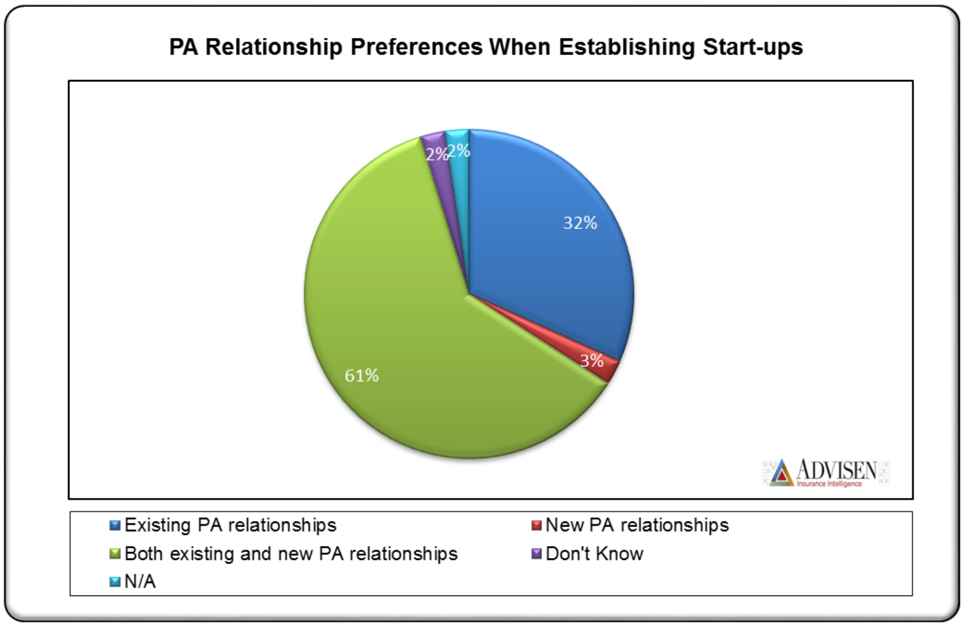


Do carriers do start-ups?

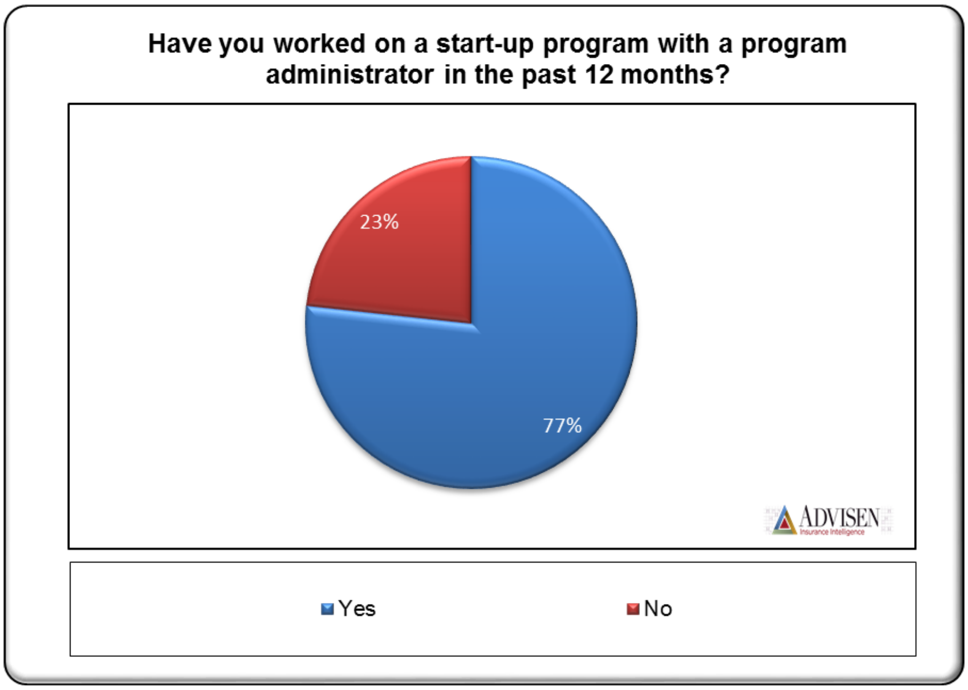
Carriers were also asked about their views on start-ups and a majority of them said they do start-ups. More than half of the carriers polled said they do start-ups sometimes, while 40 percent said they rarely do start-ups. The remaining 2 percent said they never entertain start-ups. Commenting on start-ups, one respondent underscored the importance of track record, saying "While we would like to do them, our track record is not that good so we tend to set the bar high."



Of those who do start-ups, 61 percent say they do them with both existing and new program partners, while 32 percent only do start-ups with existing PA relationships.

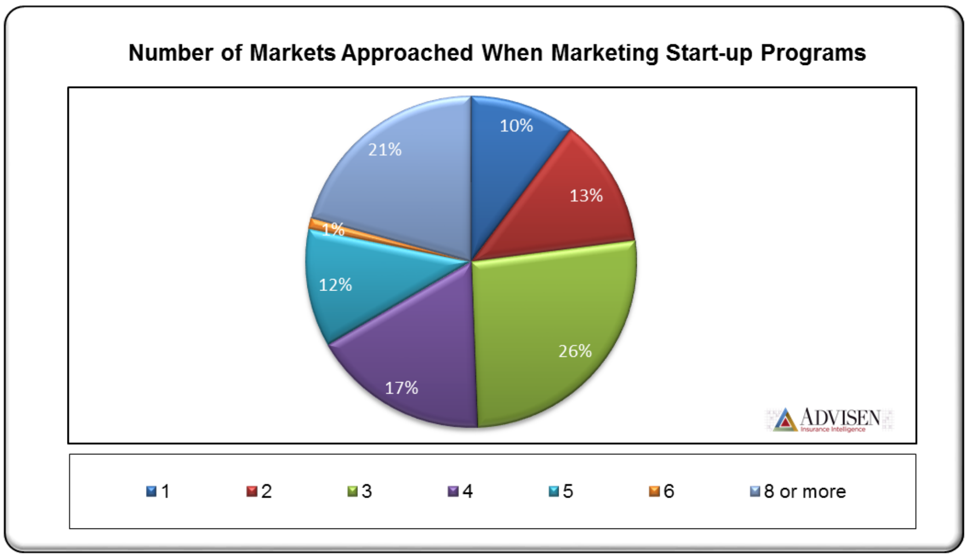


Nearly 80 percent of the carriers surveyed say they have worked on a start-up program with a program administrator in the past 12 months, while 23 percent say they did not.

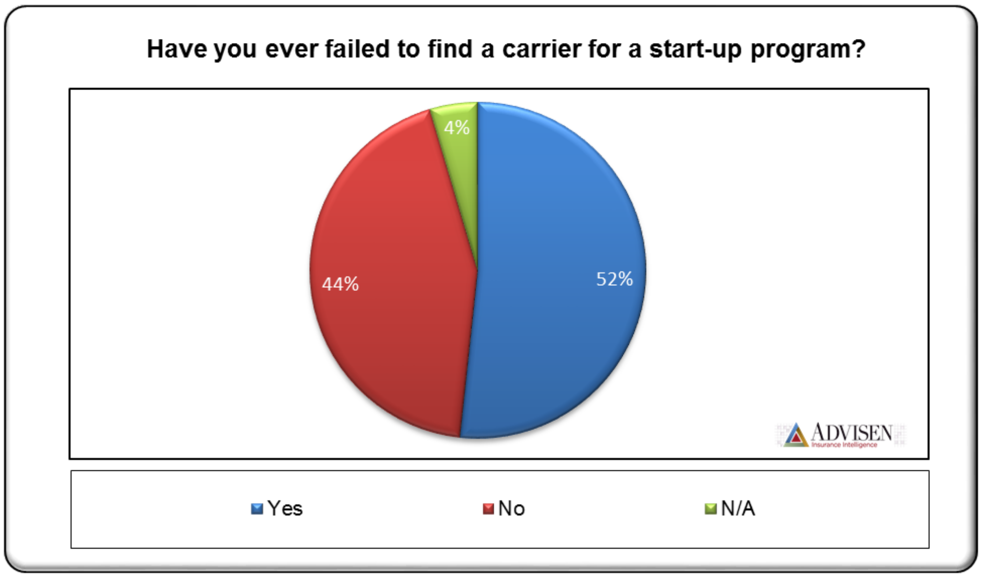


Interestingly, despite these figures, program administrators seem to have a hard time getting a carrier interested. This difficulty is reflected in the count of markets approached by administrators for a program and their failure rate.

A fifth of the administrators had to approach eight or more markets to start a new program, while 12 percent approached seven markets. Seventeen percent approached four markets, while 26 percent approached three markets. Only 13 percent approached just two markets and 10 percent approached one market.

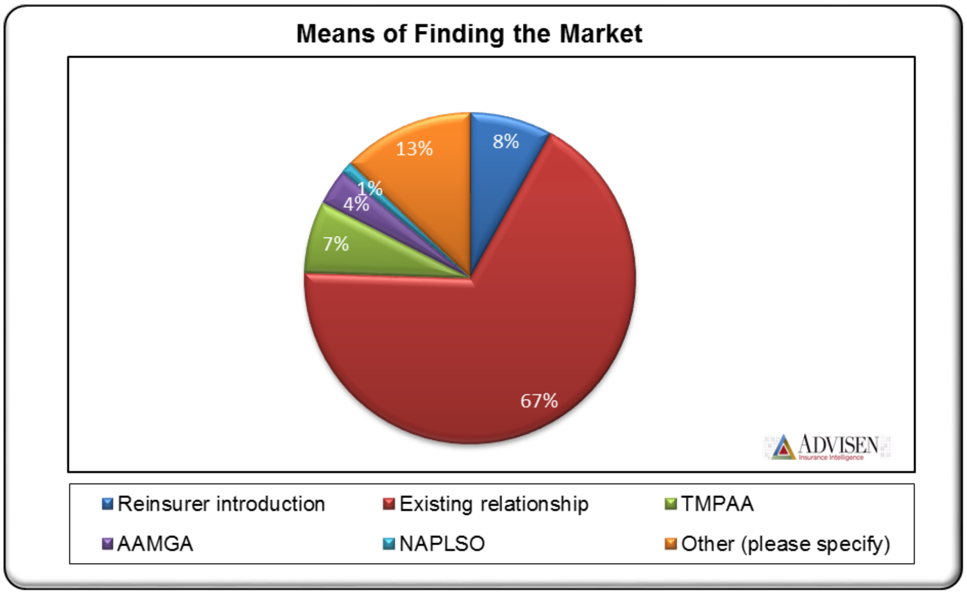


More than half of those polled admitted failing to find a carrier for a start-up program, while 44 percent said they have never failed. “Pure start-up is getting tougher,” one administrator said when asked about their views on trends they are encountering in developing start-up programs.



The administrator respondents were asked about the length of time it took them to find a market from the beginning of the process until securing a signed agreement. Nearly 50 percent of the respondents said it took one to six months, while 28 percent said it took seven to 12 months. Nineteen percent responded 13 to 18 months, while the remaining participants said it took more than 19 months.

According to 67 percent of administrators polled, they found the market through an existing relationship. This seems to reflect that insurers are more likely to do a program where they have an existing relationship. Eight percent found the market through reinsurer introduction, 7 percent through TMPAA, 4 percent through AAMGA, and 1 percent through NAPSLO. Thirteen percent of those surveyed said they found the market through other sources such as third party intermediaries and vital insurance partners.



Why is it difficult to find a carrier who will support a start-up?

A major issue that is evident from responses of administrators is the cost involved in developing start-up programs. According to one respondent, “The cost of capital to launch programs for program leaders is high, while the cost of capitals and debt to underwriters is low. Current mismatch is likely creating underinvestment by program leaders. Underwriters need to provide equity or debt mechanisms in order to scale quickly enough to understand loss ratios. Innovation will require greater investment by underwriters.”

Another survey participant feels the same way, saying “Most companies are not as interested as they once were due to the cost of starting a program. That being said, it’s a matter of continuing to network and reaching out to markets. A no is ‘just not right now.’ And market’s appetites change and news players come into the market.”

One respondent mentioned how a shift in the insurance industry has affected start-ups. “Most GAs do not understand the nature of the shift that has occurred in the insurance industry over the past 10 years. In the current environment, carriers have teams that must decide on each new program where in the past it was usually an individual that had to be convinced. Today, you must convince the actuaries, claims administrators, underwriting unit, data interface staff, regulatory and senior management. That requires having a detailed presentation of and a solution for all the concern of each individual discipline. Because most GAs do not understand this new world, most struggle to get acceptance of new programs.”

Program size also seems to be an issue. “Program size is a serious concern. Most carriers are looking for an established program generating 5 million or more in premium,” one administrator said. For another respondent, “Carriers do not seem interested in programs that cannot grow beyond $15 million to $20 million.”

As would be expected, the reluctance of carriers to work on start-up programs was mentioned by several administrators as a key challenge. For one respondent, the three issues facing the program business is “willingness to entertain new program ideas in unproven products; willingness to entertain start-up programs with limited data; and willingness to entertain start-up programs with low premiums volumes for the first few years while the book grows and gains momentum.”

According to a poll participant, program administrators are addressing this challenge by gathering “good research on start-up proposals.” Another respondent said they are “trying harder to provide a better executive summary.”

What do carriers look for?

In a qualitative analysis of responses, experience and track record topped the list of qualities that carriers look for in a start-up program.

One carrier said they want "experienced administrators with a solid idea and track record – even if a start-up, they are always considered. Existing programs need a track record, solid data, good loss history and the ability to handle the entire R/Q/I work flow." Carriers also want program administrators that have experience in the industry to be written.

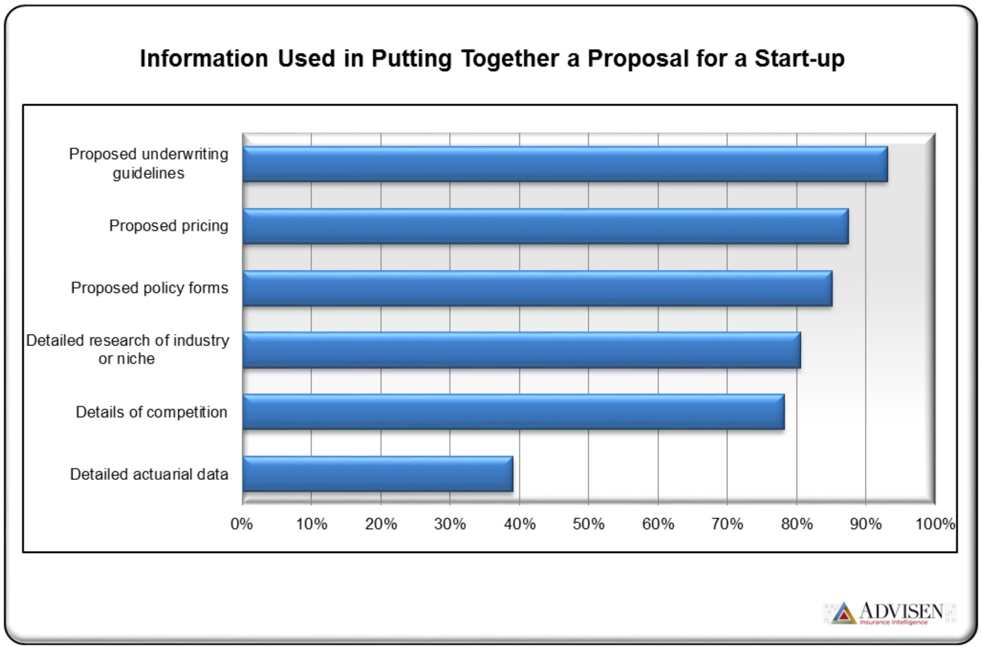
An equally important factor that they look for is a good business model and business plan. According to one respondent, it is imperative to have a "well-defined business plan which can clearly demonstrate the opportunity for growth and profitability."

Some of the respondents also believe that having good information makes the case more compelling. For them, data is also a must. "It is all about the data. The better the data, the higher the probability of a transaction being completed," one respondent said. Another carrier surveyed said, "There has to be data to give us an idea of financial performance and the rate structure that drives that performance." For another respondent, "Data is the key – historical experience from a retailer or wholesaler and as much claim loss detail as possible."

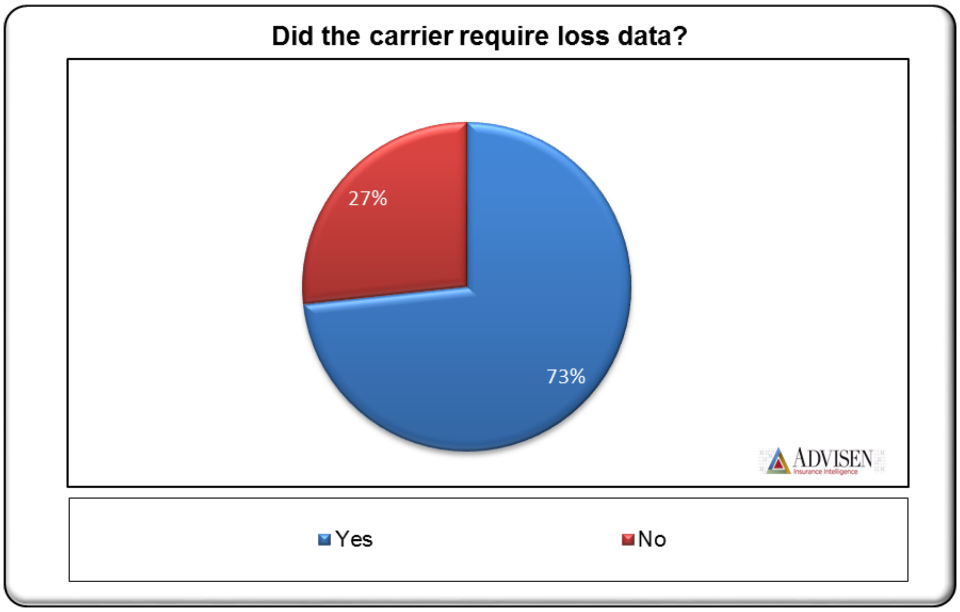
In evaluating a proposed start-up program, carriers who responded said their top criteria is data. "Industry data – ability for the PAs to show how this business is going to be profitable and it is needed in the marketplace. How it competes," one respondent said.

Another carrier said, "The vast majority of start-ups lack market data, a unique/sophisticated business plan/target segment, a realistic pro-forma and a well-capitalized backroom. Too often, start-ups have the kernel of an idea and really expect the company to do the heavy lifting," one carrier said.

Clearly, more than experience, carriers are looking for data – solid data. It is therefore interesting to see what kind of data the PAs use in a proposal. The program administrators were asked about the type of information they used in preparing a proposal for a start-up program. Nearly all of those polled said they utilized proposed underwriting guidelines. The majority of respondents also used proposed pricing and proposed policy forms. They also conducted a detailed research of the industry or niche related to the proposal and gathered data on the competition. Less than 40 percent of the participants used detailed actuarial data. This could be indicative of a gap between what carriers are looking for (i.e. data) and what program administrators are providing.

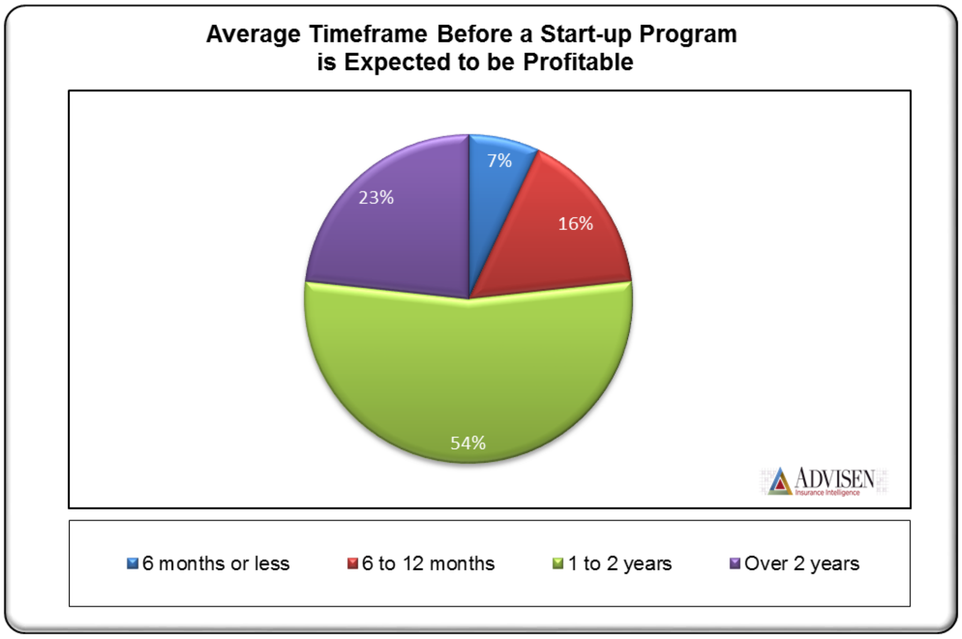


More than 70 percent program administrators said carriers required them to submit loss data, while the remaining 27 percent said they were not required.

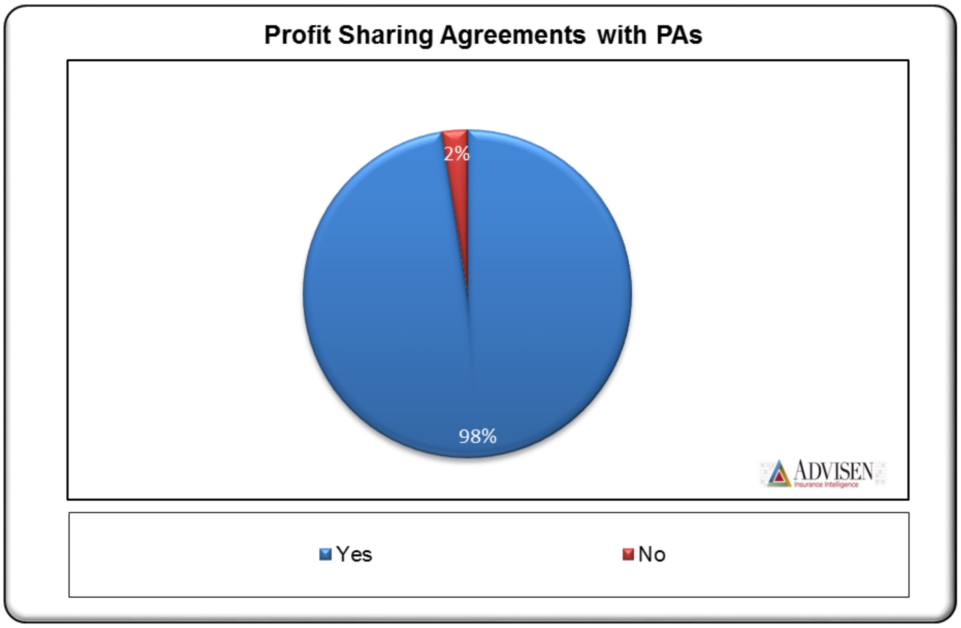


Profitability

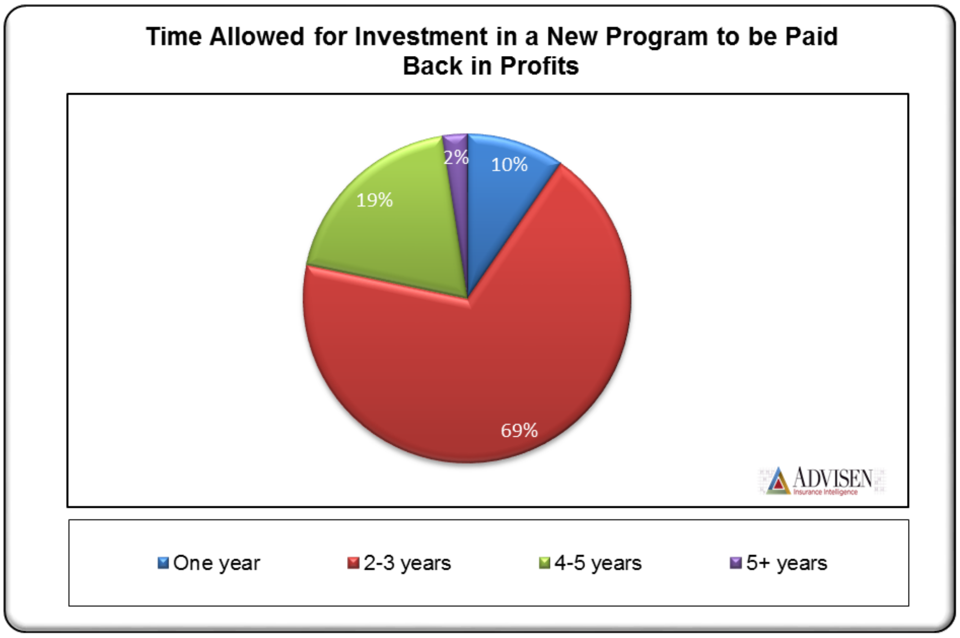
Profitability is another key consideration. In terms profitability timeframe, more than half of the carriers said that a start-up program is expected to be profitable within one to two years. A fourth of the carriers said the timeframe is over two year, while 16 percent said profitability is expected within six to 12 months. Only seven percent said profitability is expected in less than six months.



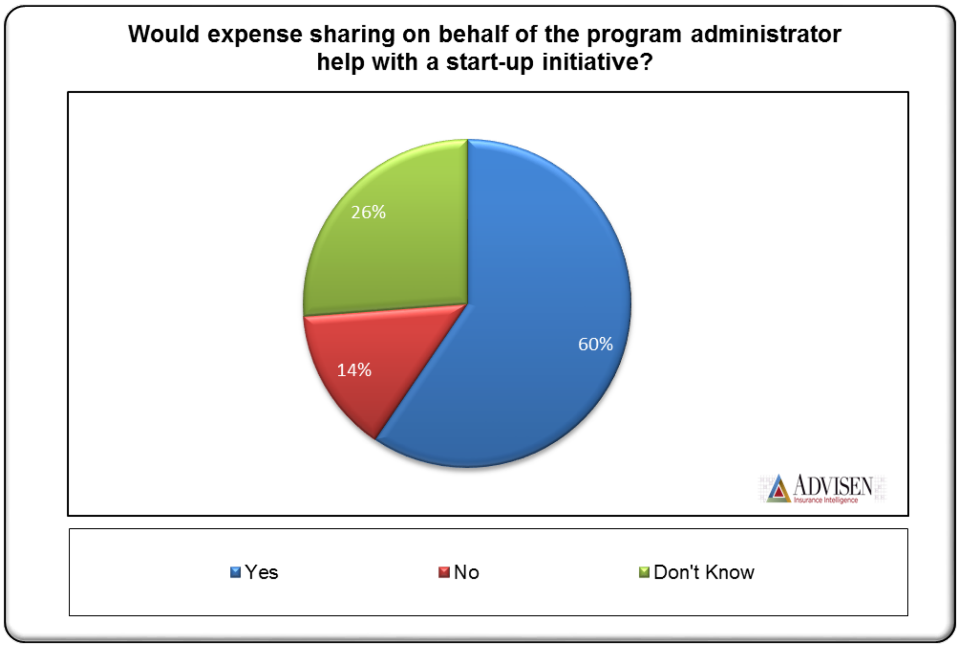
Almost all of the carriers surveyed said they offer profit sharing agreements for their program administrators.



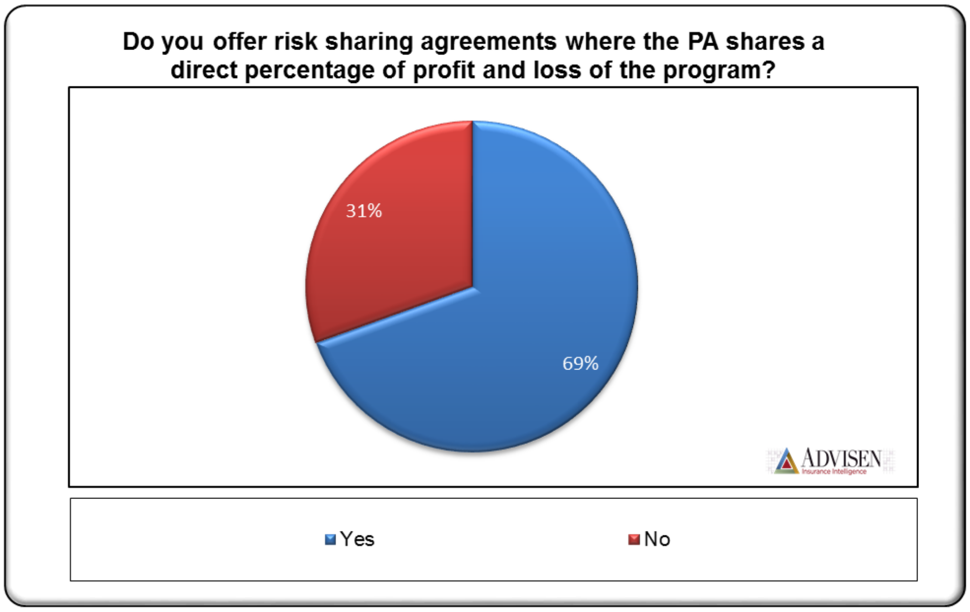
Administrators were also asked about profitability. Nearly 70 percent of the program administrators surveyed said they allow two to three years for their investment in a new program to be paid back in profits. Nearly a fifth of poll participants said they allow four to five years, while 9 percent said one year.



Expense sharing and risk sharing are other key facets of the PA-carrier relationship when it comes to start-ups. Asked if expense sharing on behalf of the program administrator would help with a start-up initiative, 60 percent of the respondents said yes. Fourteen percent said no, while the remaining 26 percent had no view.



Sixty-nine percent of the respondents offer risk sharing agreements where the program administrator shares a direct percentage of profit and loss of the program, while 31 percent said no.

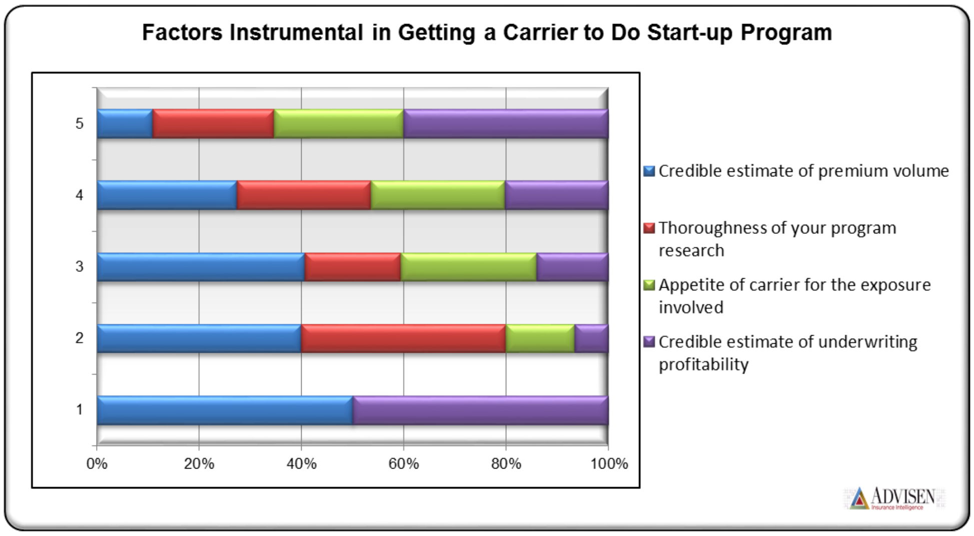


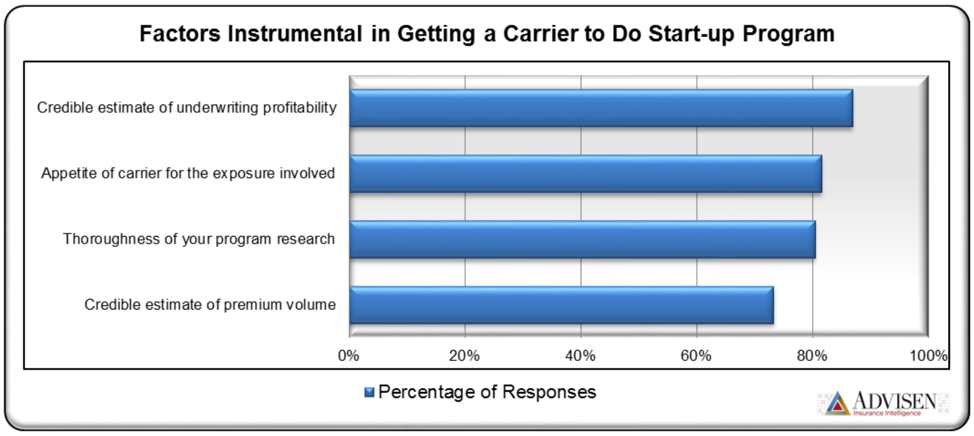
Success in start-ups

Administrators were requested to comment on what they think is the most important thing that helped them succeed in starting their program from scratch. Many of those polled said credibility, expertise, knowledge of the industry and product line, track record on previous start-ups were key to their success. Some respondents also mentioned good data as a driver of success.

Some of them also highlighted the importance of showing profitability and complete analysis of the program's potential for all participants. "We know how to build underwriting plans that answer the question of why the carrier will make money on the program. We then include in our proposal detailed explanations of how we will manage claims, collect data, handle policy issuance and processing, collection of premium, loss control, data interface with carrier, regulatory filings if necessary and essentially come to them with a complete product that answers all of their questions in advance. Works pretty well!" one program administrator said.

The program administrators were asked to rate the factors that were instrumental in getting a carrier to do their start-up program on a scale of 1 to 5 with 5 being the most important. With a weighted average of 4.35, a credible estimate of underwriting profitability ranked first in terms of importance. A close second and third were the appetite of carrier for the exposure involved and the thoroughness of program research. The fourth factor is credible estimate of premium volume with a weighted average of 3.67.

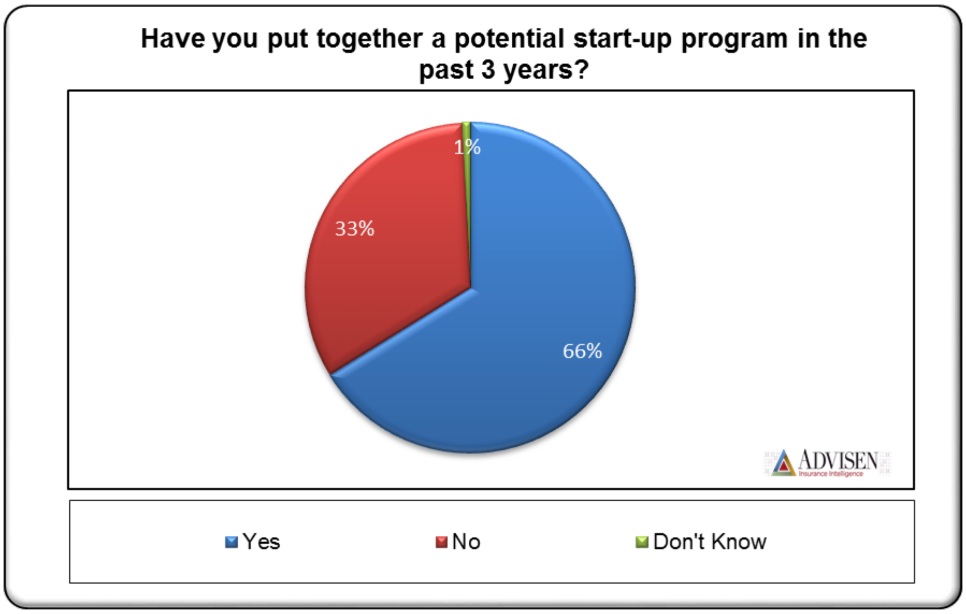




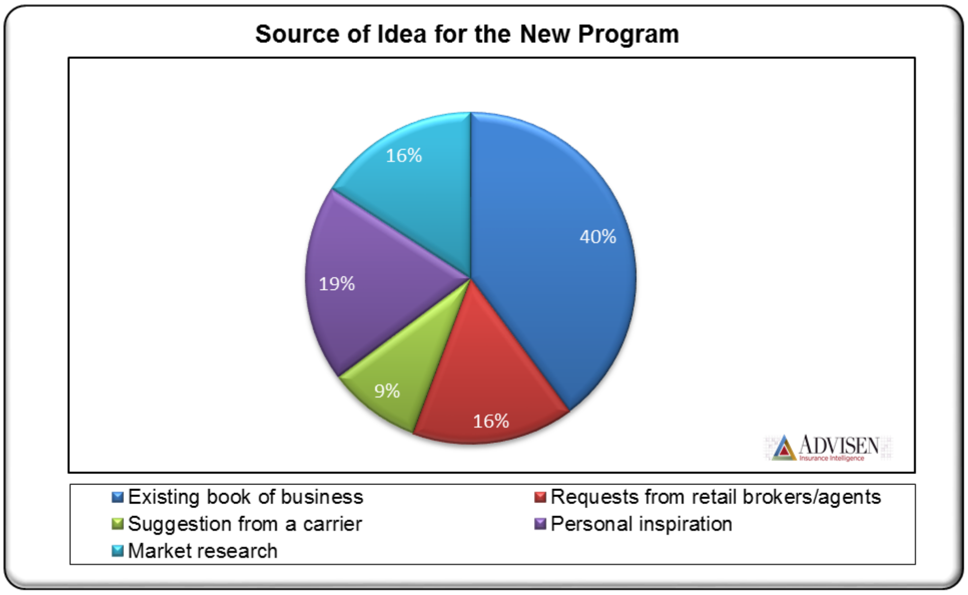
The carriers polled were also asked about their views on factors that affect the success of start-up programs. A range of responses was offered, the most mentioned of which was a solid business model. Marketing and distribution, risk selection, and adequate pricing were also seen factors most crucial to the success of a start-up program. Other factors mentioned were PA expertise, realistic projection, tighter controls, competitiveness of rates, claims attrition, and alignment between program administrators and carriers.

Putting together a start-up program

Despite the high failure rate, 66 percent of the program administrators polled said they have put together a start-up program in the past three years, while 33 percent of the respondents said "no."

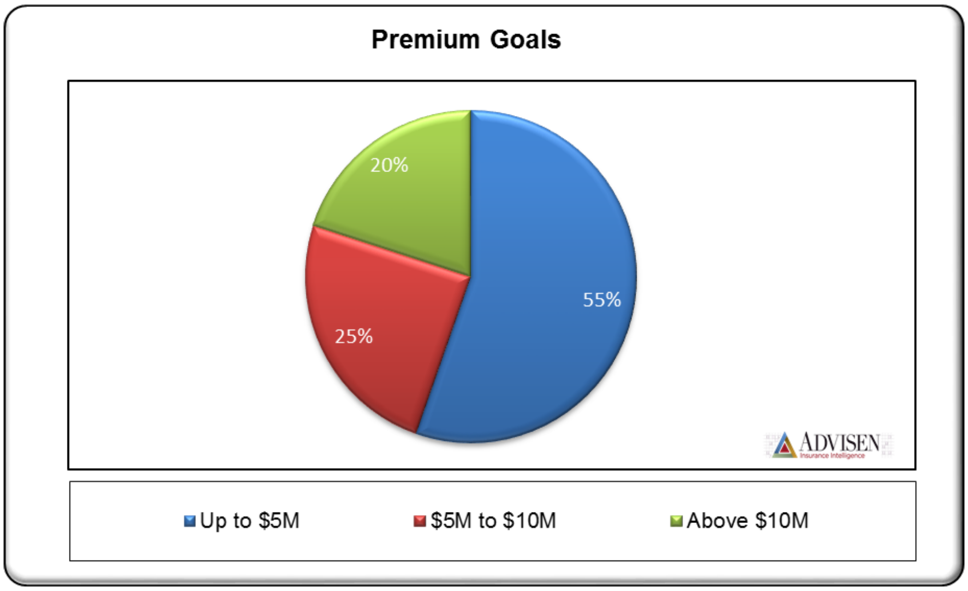


Asked where they got the idea for the new program, 40 percent of the respondents said it was from an existing book of business. According to 19 percent of those polled, they got the idea from personal inspiration. Sixteen percent said it was requested by retail brokers or agents, while another 16 percent was from market research. Nine percent of the respondents said the idea was suggested by a carrier.

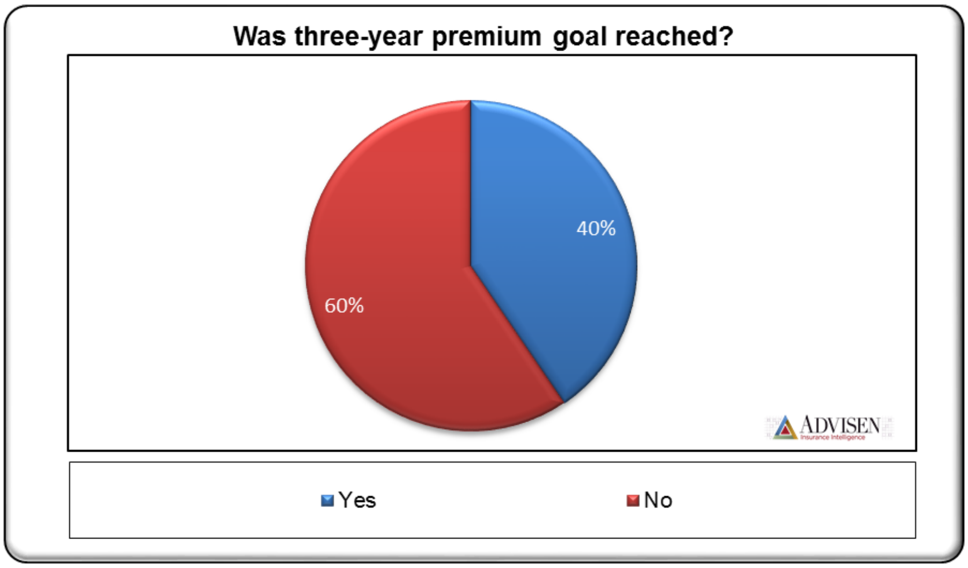


Premium Goals

More than half of the administrators polled set their premium goals up to $5 million. A fourth of them said $5 million to $10 million, while a fifth said their premium goal is more than $10 million.



Asked if their three-year premium goal was reached, 60 percent said no, 40 percent said yes.



Data Collection and Management

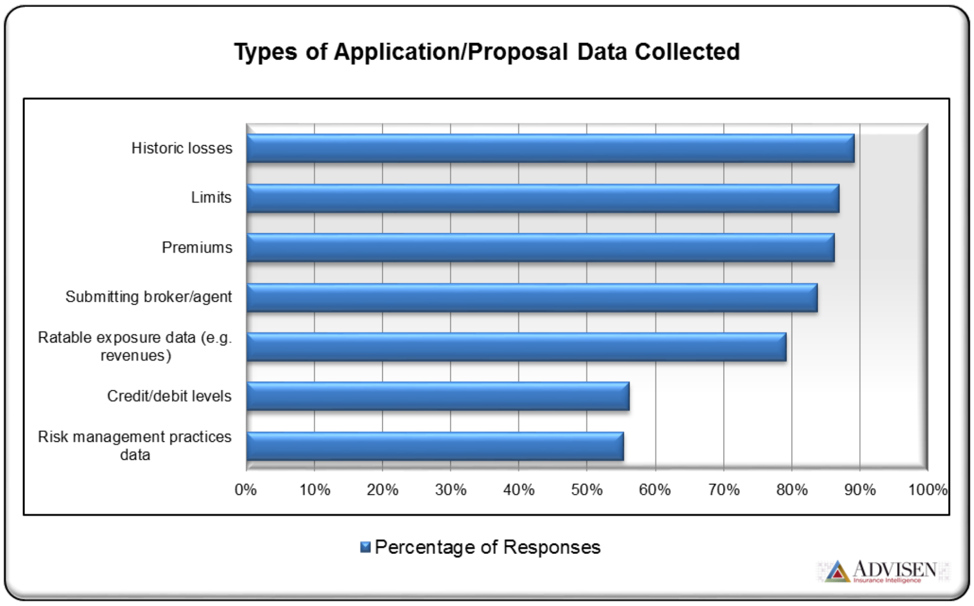
"Ability to acquire, transmit, and analyze MEANINGFUL data," was identified by one carrier respondent as a key challenge faced by the program business. Many respondents agree with this poll participant's view.

The pre-survey conducted by TMPAA and Advisen to identify topics for this study showed that both program administrators and insurers want to know more about the data collection and management practices of their peers. Among the questions they wanted answered were: *Do you rely on the carrier for financial information or do it yourself, or a blended approach? Why do agencies seem to have so much trouble obtaining solid, quality premium* *and loss data from their existing programs? How are member companies moving to use analytics from data being collected and analyzed?*

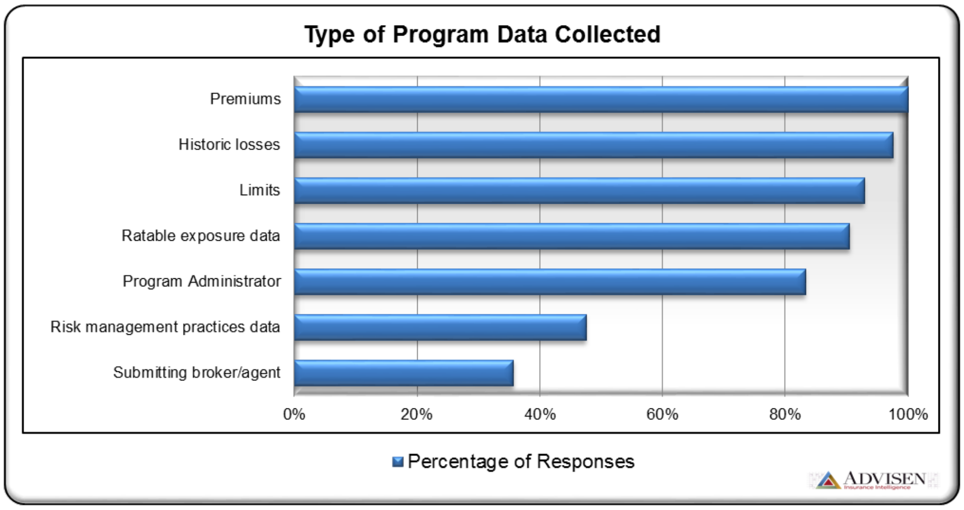
Survey responses, particularly those of carrier respondents, reveal that data collection and management is a problem area. Of the 29 comments received about key elements of program administration that need improvement, 19 pertain to data. “Administrators need to collect, retain and provide better data. Companies need to streamline product development, underwriting, and data collection/retention,” one carrier said. For another carrier, “This [data collection] is an area of improvement for the entire program industry.”

What types of data do administrators and carriers collect?

The two groups appear to be in sync when it comes to the type of data they collect. The top three types of data collected by both administrators and carriers are historic losses, limits, and premiums. For administrators, the top response is historic losses with 89 percent, followed by limits at 87 percent, and premiums at 84 percent.



For carriers, premiums topped the list at 100 percent. Historic losses ranked second with 98 percent, followed by limits with 93 percent.

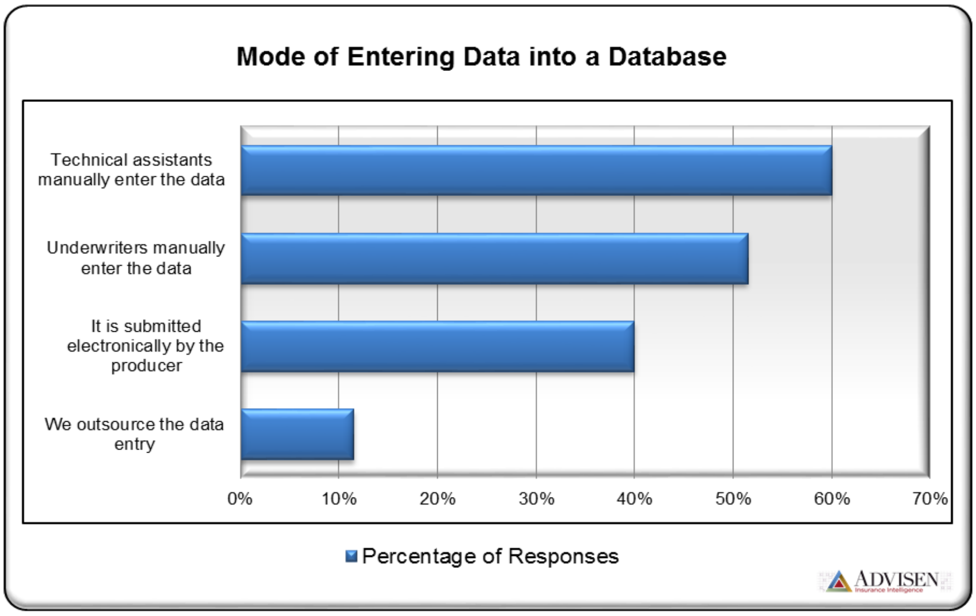


Data Entry

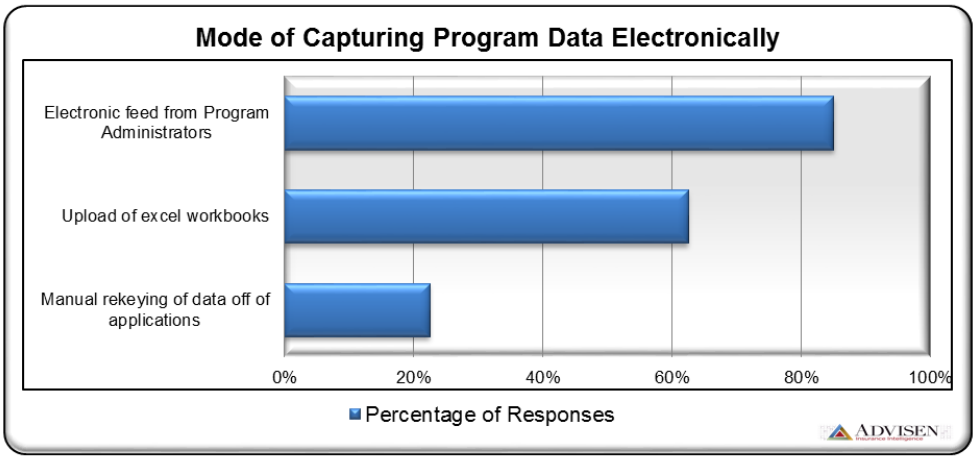
Asked how they enter data into a database, 60 percent of administrators reported using technical assistants to manually enter the data. A little more than half of those polled said underwriters manually enter the data. Forty percent of the administrators said data is submitted electronically by the producer, while 12 percent outsource data entry.

As evidenced by the survey results, administrators have yet to fully harness the use of technology in the area of data collection and management. For example, majority of those polled said their technical assistants continue to manually enter the data into a database. Although a significant percentage said data are submitted electronically by the producer, the survey result is a manifestation that many program administrators are still unable to use technology to their advantage.

According to one carrier, “Data collection and reporting can always be improved. It’s about having systems to capture the data automatically to avoid input error.” For another carrier, “Complexity remains problematic. System diversity, legacy systems, and a real failure to invest in IT combined with the failure of true data standards across the industry continue to inhibit the industry from making headway in most lines of insurance (outside WC and personal lines).”

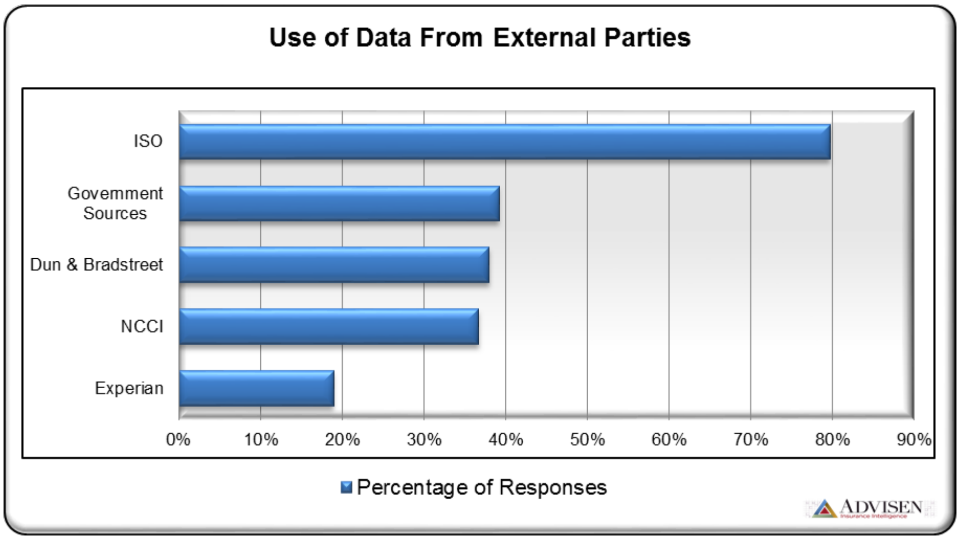


Carriers were asked how they capture program data electronically. Eighty-five percent of respondents use electronic feed from program administrators, 62 percent upload Excel workbooks, and 23 percent said data is manually rekeyed off of applications.

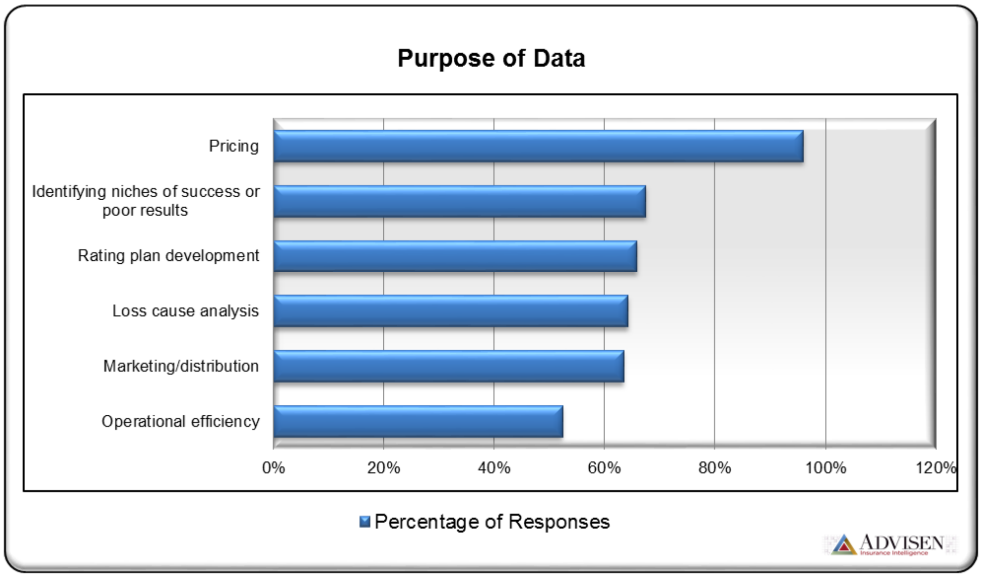


Data Use

Program administrators reported using data from a number of external parties. Eighty percent of those polled use data from the International Standardization for Organization (ISO), 39 percent use data from government sources, 38 percent from Dun & Bradstreet, 37 percent from the National Council on Compensation Insurance (NCCI), and 18 percent from Experian.



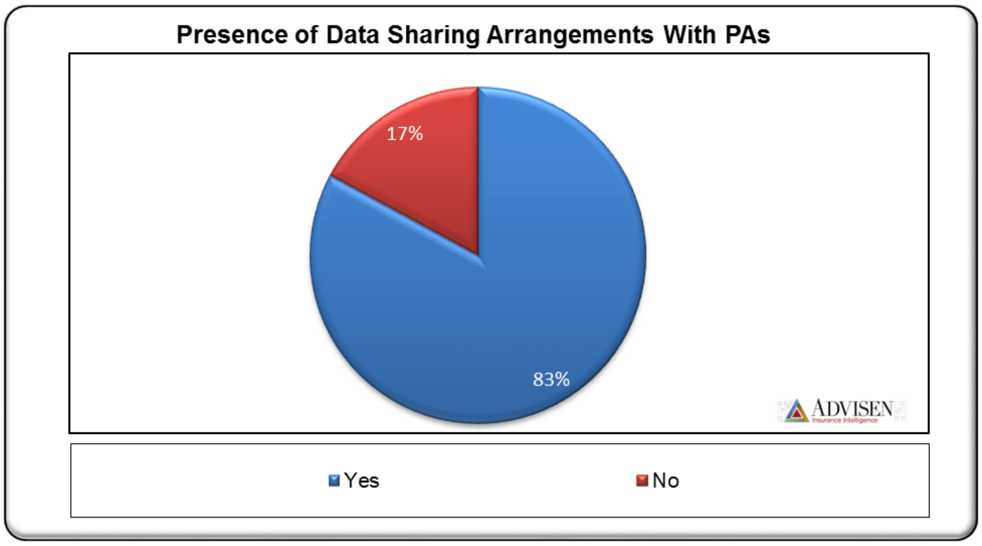
The majority of program administrators use data for pricing. More than 60 percent of respondents use data for identifying niches of success or poor results, rating plan development, loss cause analytics, and marketing/distribution. Half of the respondents reported using data for operational efficiency.



In the area of analytics, half of the administrators polled said they do not follow the NAIC and individual state developments on securing customer data. Twenty-eight percent of respondents said they follow the NAIC and individual state developments, while the remaining 21 percent had no view.

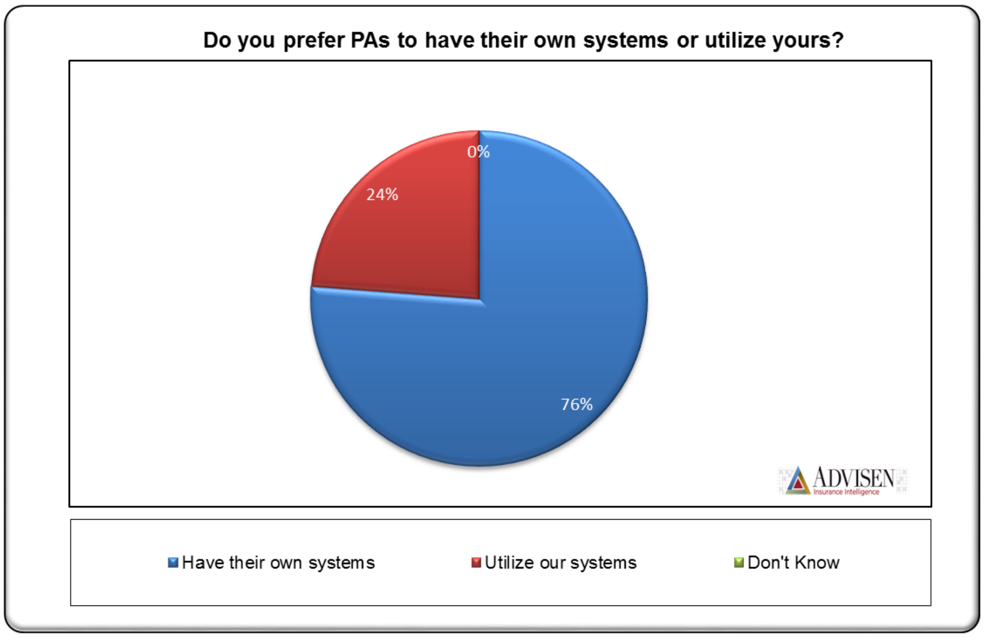
Data Sharing

Eighty-three percent of carriers reported having data sharing agreements with program administrators. The remaining 17 percent have no such agreements.

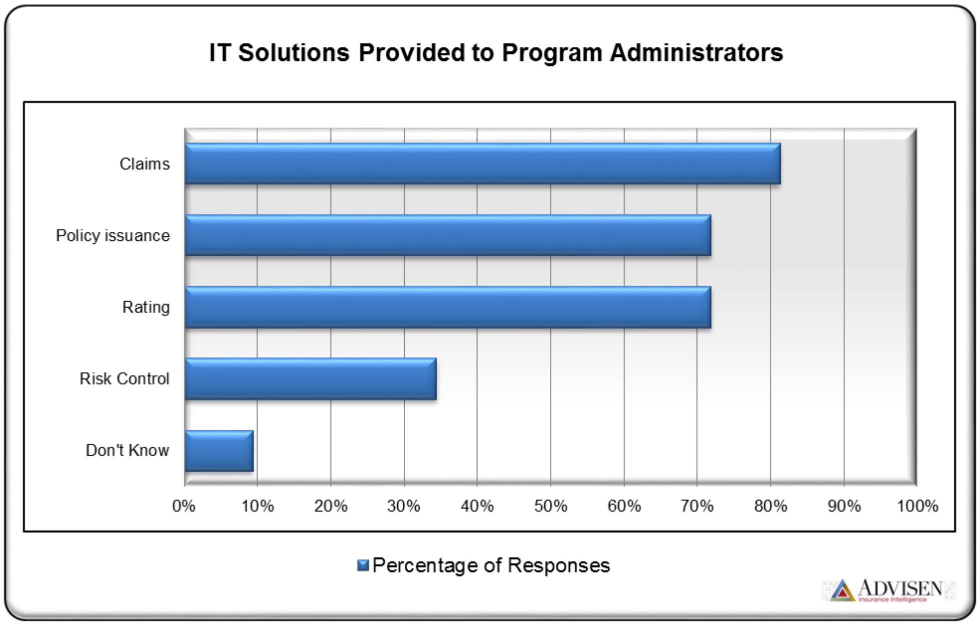


Asked if they prefer program administrators to have their own systems or utilize their systems, 76 percent of carriers polled said they prefer that the administrators have their own systems. The remaining 24 percent said they prefer that the administrators use the carrier's systems.

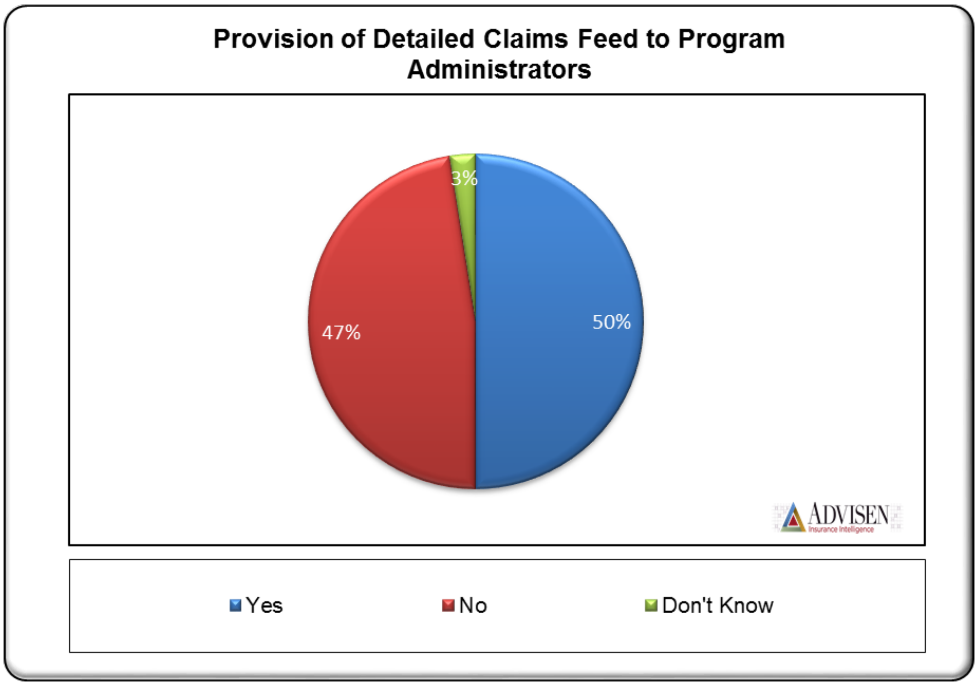
Commenting on the elements of the program business that need improvement, one carrier respondent said, "Program administrators need to own or have access to the data for their programs. This is best remedied by having their own systems."



Carriers were asked about the IT solutions they can provide to program administrators. Eighty-one percent said they can provide claims, 72 percent can provide policy issuance and rating, and 34 percent can provide risk control.

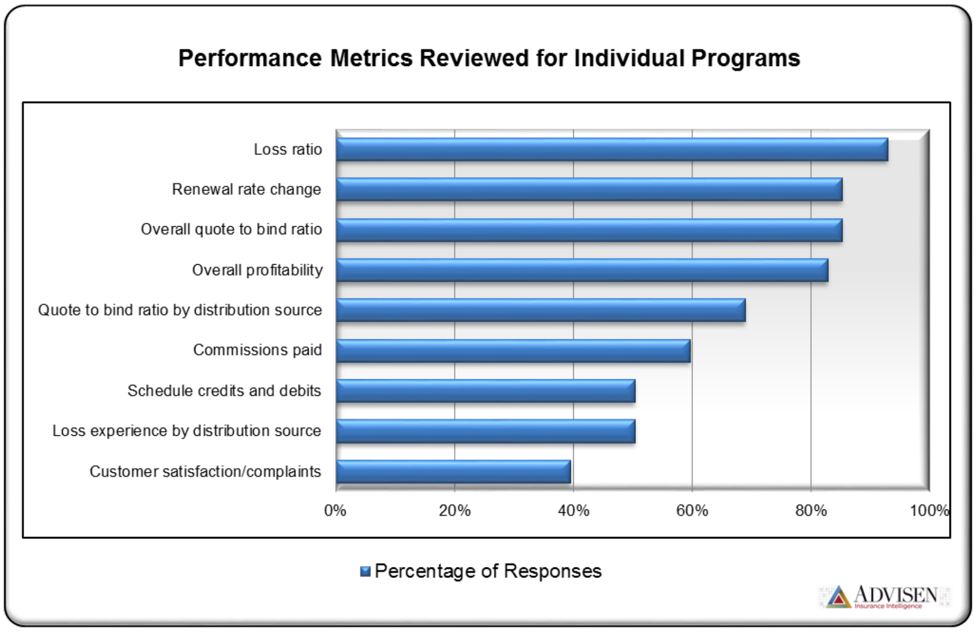


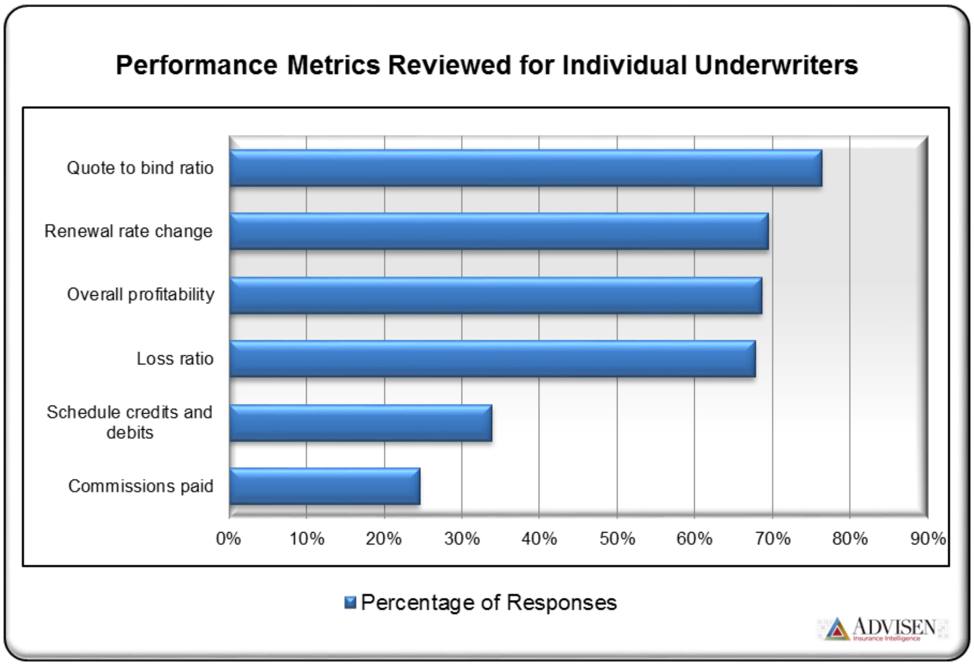
Half of the carriers surveyed provide detailed claims feed to program administrators, while 47 percent do not provide such feed.



Performance Metrics

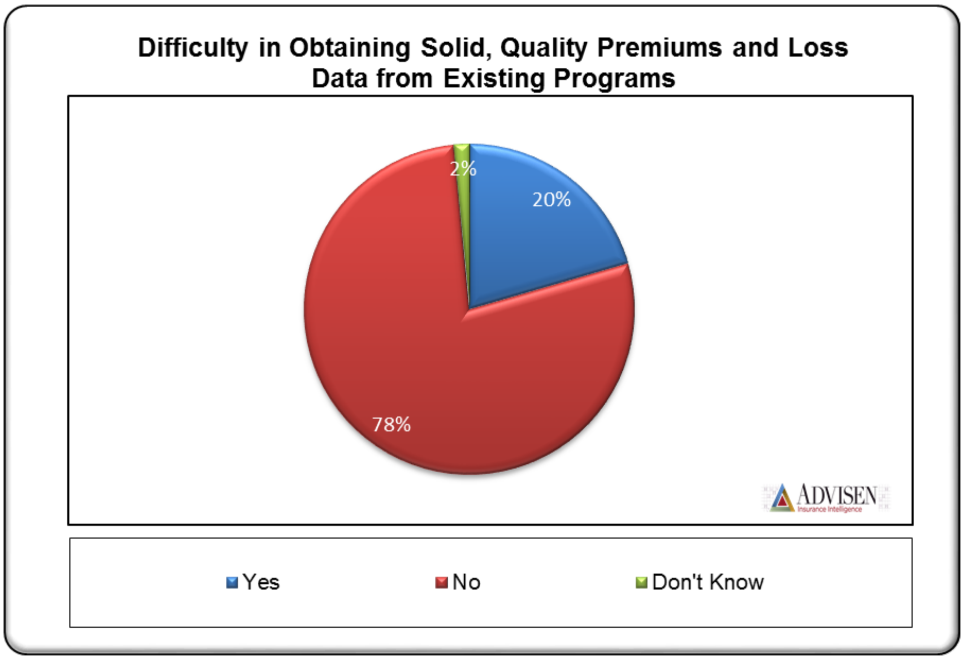
Asked what performance metrics they review for their individual programs, the top responses of administrators include loss ratio, renewal rate exchange, and overall quote to bind ratio. On performance metrics reviewed for individual underwriters, the top responses were quote to bind ratio, renewal rate change, and overall profitability.



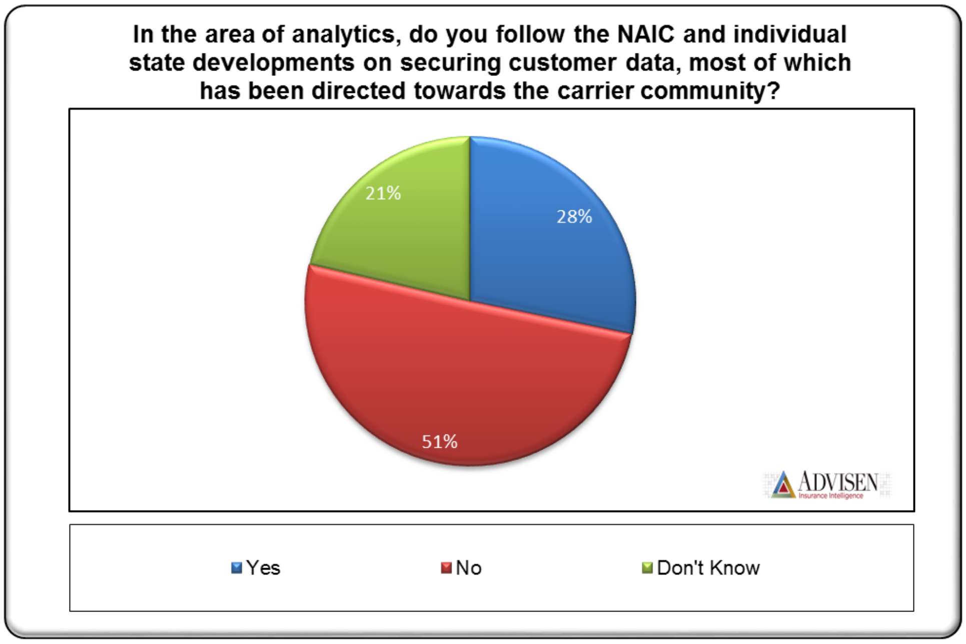


Obtaining Data

Seventy-eight percent of administrators surveyed do not have difficulty obtaining solid, quality premium and loss data from their existing programs, while 20 percent reported having difficulty.



Slightly more than half of polled administrators said they do not follow the NAIC and individual developments on security customer data in the area of analytics. A significant 28 percent said they follow the process while 21 percent were unsure.



Predictive Modeling

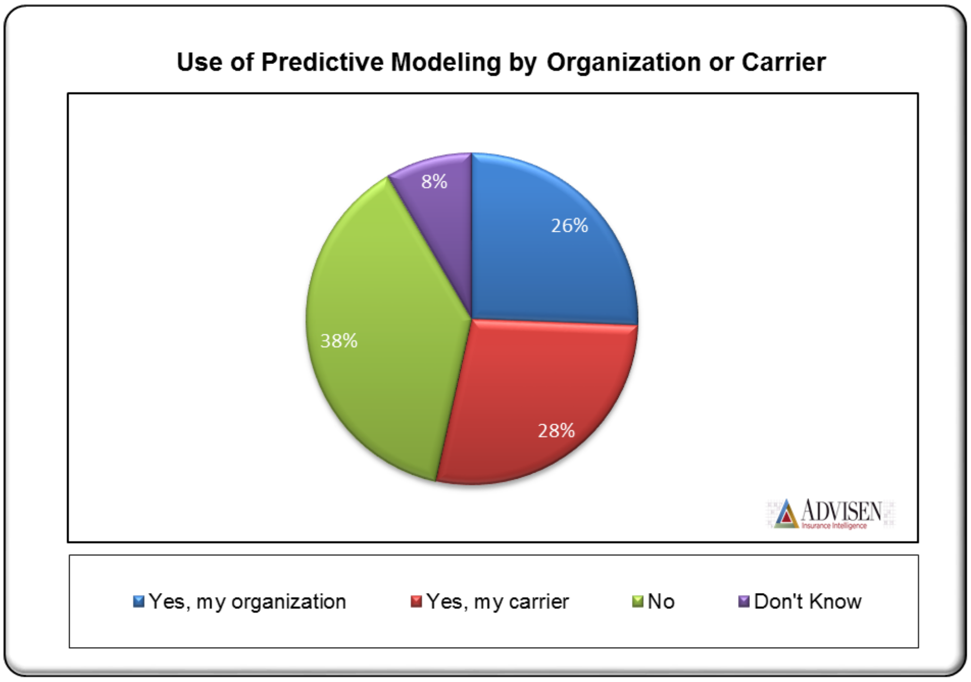
"Program analytics has become a big buzzword in recent years. The challenge now is to teach actuaries how to take the results and transfer them into underwriting practices and methods. We use data to try and determine the weight of different risk characteristics on loss frequency and severity to allow us to price all risks within a class at the appropriate level to achieve a targeted loss ratio," one program administrator polled said when asked to provide a comment on trends encountered in data collection and management and program analytics.

The carrier further explained that "Most predictive modeling approaches we see in the market effectively create Yes/No models of selection but do not adequately isolate cause and do not lend themselves to really understanding the processes behind the results which ultimately are more important since they allow us to predict results in areas where we do not have existing data."

Responses to a series of questions on predictive modeling show limited uptake among administrators. They have yet to fully see its impact on program profitability.

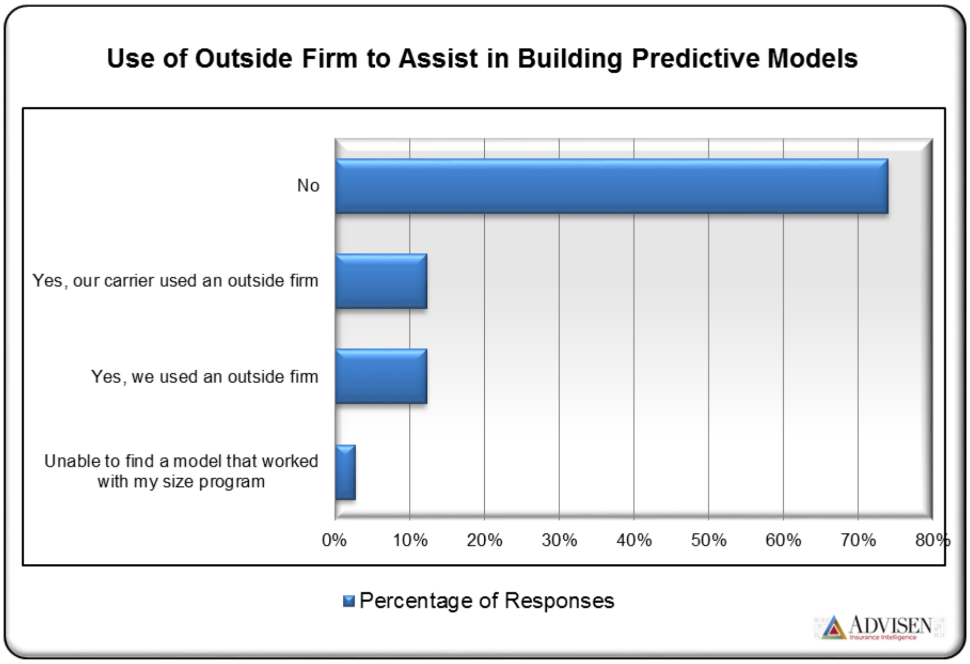
Use of Predictive Modeling

Nearly 40 percent of program administrators polled do not engage in predictive modeling. Twenty-six percent said they engage in predictive modeling, while 28 percent said their carriers use predictive modeling. The remaining 8 percent had no view.



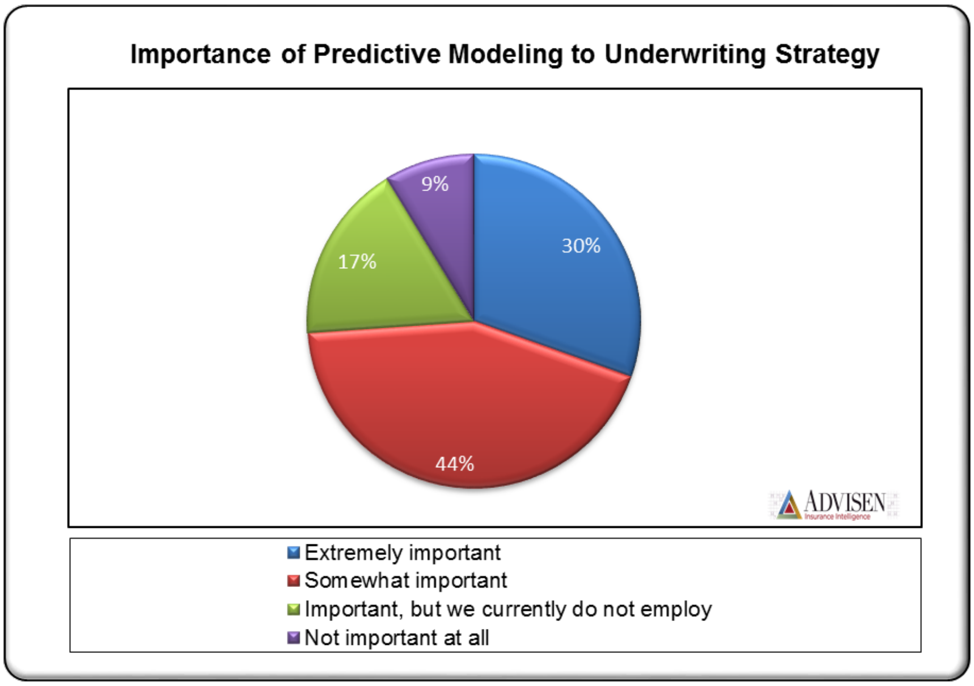
Use of Third-party Assistance in Building Predictive Models

Three-fourths of the administrators surveyed said that they and their carriers did not use an outside firm to assist them in building predictive models. Twelve percent of those polled said they employed an outside firm. Another 12 percent said their carrier used an outside firm. The remaining respondents were unable to find a model that worked with the size of their program.



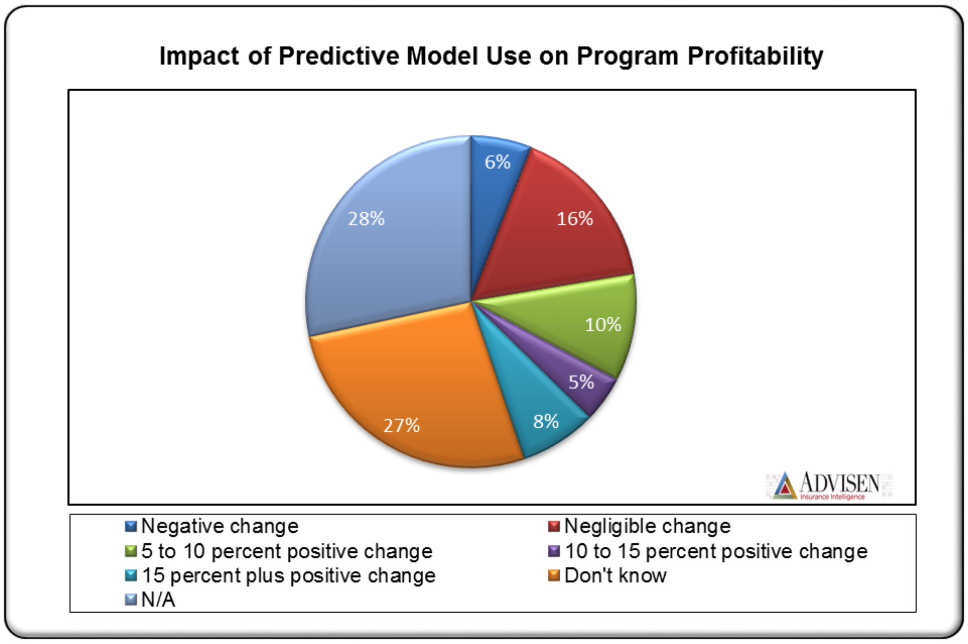
Importance of Predictive Models to Underwriting Strategy

Only a third of the program administrators polled see predictive modeling as extremely important to their underwriting strategy. For 44 percent of the respondents, predictive modeling is somewhat important to their underwriting strategy. Seventeen percent feel it is important, but they do not currently employ predictive modeling. The remaining 9 percent feel it is not at all important.



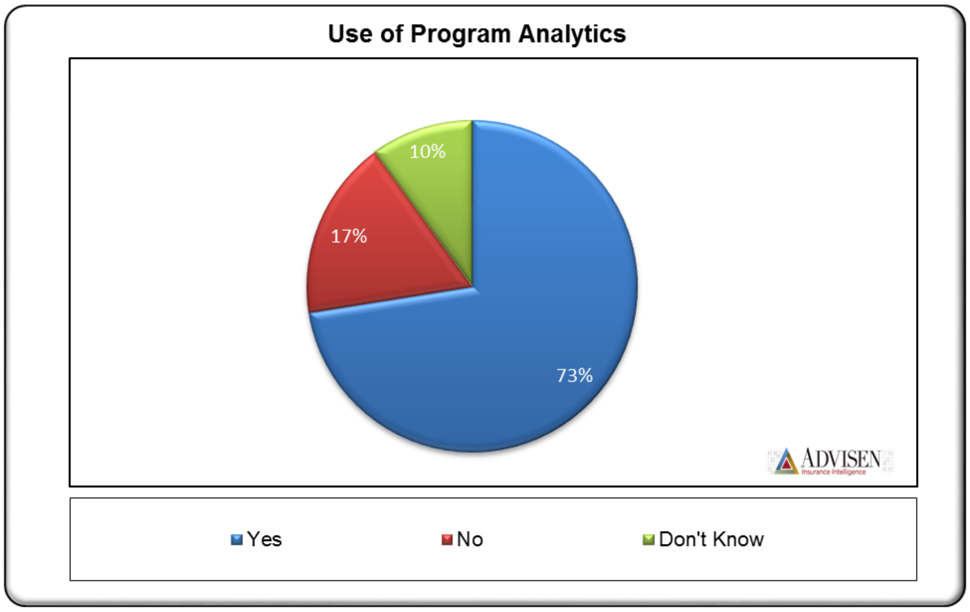
Impact on Program Profitability

There are mixed views about the impact of predictive models on program profitability. Only 23 percent saw a positive change. Of these program administrators, 10 percent said there was a 5 to 10 percent positive change, 8 percent saw a 15 percent plus positive change, and 5 percent reported a 10 to 15 percent positive change. Six percent of the respondents said there was a negative change, while 16 percent said there was negligible change. Twenty-eight percent of the respondents said the question is not applicable to them, while the remaining 27 percent had no view.



Seventy-three percent of carriers polled use program analytics, 17 percent do not, while the remaining 10 percent had no view. For those who use program analytics, some mentioned that they are still in the initial stages of application and could not provide details of initial results. Some carriers reported good initial results, saying program analytics has enabled them to share better information to administrators.

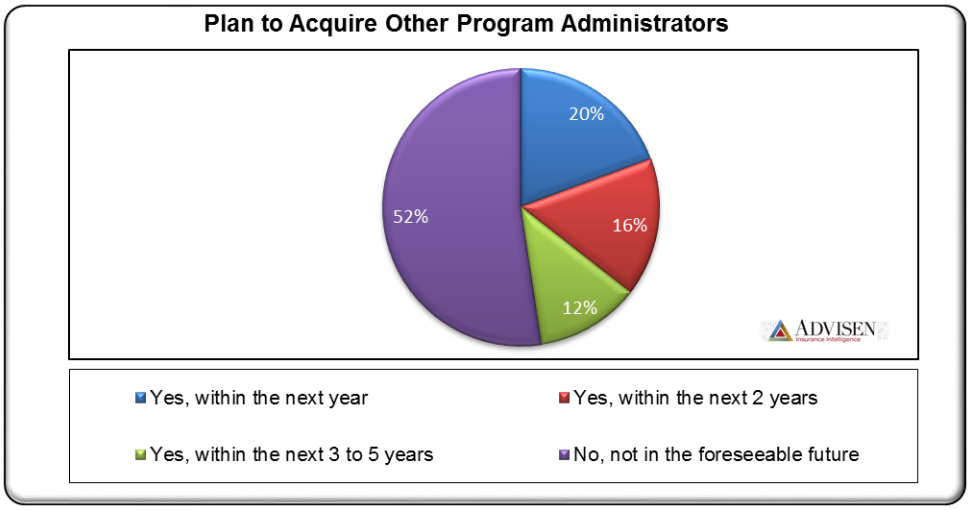
According to one carrier polled, “We use analytics in combination with actuarial analysis to collaborate on program refinement or improvement with the program administrators.”



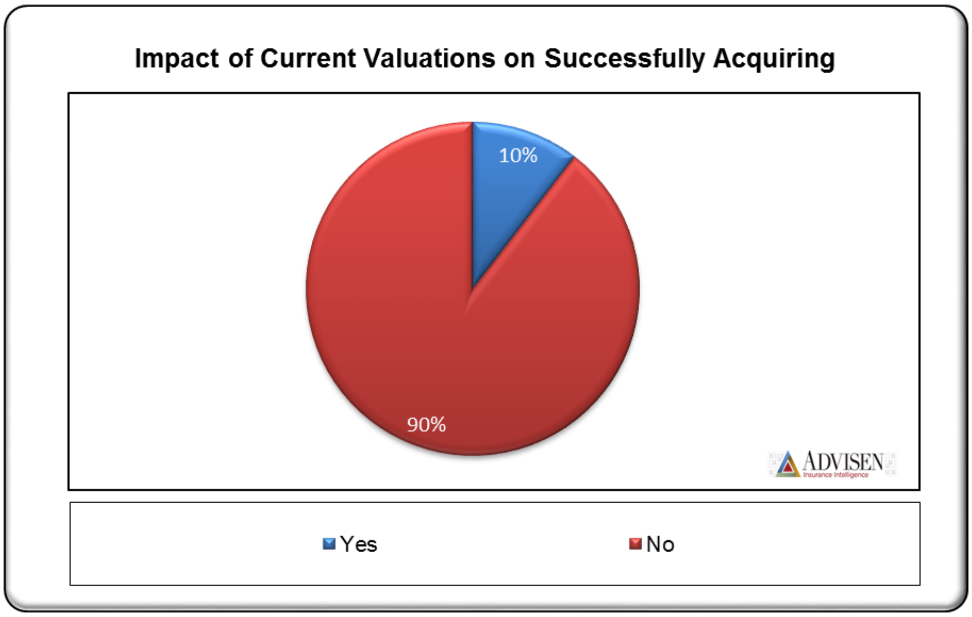
Mergers and Acquisitions

Administrators were also queried if they are planning to acquire other program administrators. Fifty-two percent said they do not see the possibility in the foreseeable future. Twenty percent said yes, they see that happening within the next year. Sixteen percent said there is a chance of within the next two years. Twelve percent said they see an acquisition of other program administrators within the next 3 to 5 years.

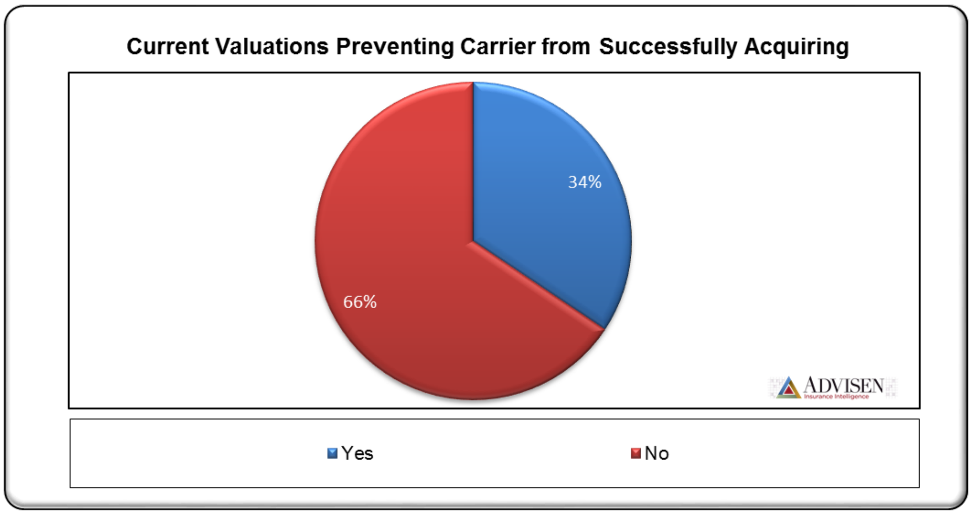
"We see consolidation significantly reducing the population of medium to large independent program administrators over the next three years," one carrier respondent said when asked to provide thoughts on the future prospects of the program business.



Respondents were also asked if current valuations are preventing them from successfully acquiring. Ninety percent said it is not deterring them to successfully acquire. Ten percent confirmed that it is limiting their desire to acquire.



Do carriers believe that current valuations are preventing them from successfully acquiring? Sixty-six of the respondents said no, it does not prevent them, while 23 percent said yes, it does prevent them from successfully acquiring.



M&A Transactions in the Program Space (2014-2015)

Buyer	Seller	Date
All Risks, Ltd.	Stonebridge Underwriters	January 2014
EPIC (acquired the program book)	Altus Specialty Group	January 2014
Patriot National	The Holdren Insurance Group	April 2014
Hudson Insurance	Motor Transport Underwiters	April 2014
HIIG	Compass Group Partners	May 2014
Norman Spencer	Northern Star	August 2014
US Risk	J.B. Lloyd & Associates	October 2014
USI Insurance Services	Askin, Weber & Reed	December 2014
Victor O. Schinnerer & Company	Seafire Insurance Services	December 2014
AmTrust	Oryx Insurance Brokerage	January 2015
Patriot National	Phoenix Risk Management Insurance Services	February 2015
AIG (acquired controlling interest)	NSM Group	March 2015
ACE	Fireman's Fund Insurance	April 2015
Breckenridge Insurance Group	Regional Excess Underwriters	April 2015
AssuredPartners	Greater South Agency	April 2015
Brown & Brown	Bellingham Underwriters	May 2015
Hudson Insurance	Euclid Managers	June 2015
Meadowbrook Insurance Group	Mackinaw Administrators	August 2015
US Risk	Strategic Insurance Underwriters	August 2015
Distinguished Programs	Fulcrum Programs	August 2015
Arthur J. Gallagher & Co.	National Administration Co.	August 2015
Marsh	Dovetail Insurance	August 2015
Allied American Underwriters (acquired certain program renewal rights)	US Assure	August 2015
AmTrust	The Republic Group	September 2015
Markel	Risk Exchange Insurance Services	
DUAL Commercial merged with DUAL Specialty		2015
Admiral Programs merged with Berkley		2015

Challenges Faced by the Program Business

The program business continues to be one of the most successful segments of the commercial insurance industry. Yet challenges remain, ranging from the impact of the soft P&C market, overcapacity, lack of data sophistication, lack of technology, to the reluctance of carriers to do start-ups.

Both administrators and carriers see the current soft market conditions as a key challenge facing the program business. Players worry about the negative impact that the soft market may bring to their bottom line results. One carrier respondent mentioned the difficulty of retaining market differentiation in a soft market.

Many respondents mentioned the over-abundance of capacity in the business. "Too much capacity means too many players in our industry that do not know what they are doing and make adequate pricing and profitability targets difficult," one administrator said. Asked what they are doing to address this challenge, some administrators said they are providing value-added services and pursuing product differentiation.

Among administrators, the reluctance of carriers to do start-ups continue to be a huge issue. According to one administrator, there is "no interest by risk-takers in small start-up programs." Responses to survey questions about start-ups also show that administrators are having difficulty getting carriers to commit to new program development.

A related challenge mentioned by many carriers polled is the lack of meaningful data from administrators. "Some PAs don't seem to appreciate the value of good data," one carrier said. Another carrier said there is a "need for better tracking, analysis and leveraging to make improvements in underwriting selection, pricing, customer selection, carrier relationship and claims management."

Technology also continues to be a challenge. One administrator polled said remaining technologically relevant is a huge challenge. Another mentioned that there is a "lack of investment in IT infrastructure from carriers." To address this problem, some administrators said they are working to build a strong technology front by increasing their investment in IT platforms.

Other challenges mentioned include regulatory compliance, legal changes, the aging workforce, and lack of new talent.

Future Prospects of the Program Administration Business

Administrators and insurers remain in sync about the future of the program business – it is positive and bright despite the many challenges it is faced with. Both groups, however, believe that this kind of future will only be sustained if certain improvements will be made in the way business is conducted.

Comments show that program administrators understand the need to be better at what they do to ensure the industry's continued success. "Over the coming years, program administrators are going to have to become better technicians than they have in past. Just knowing about an industry is not going to be enough. You have to know more about all aspects of the underwriting, claim admin and analytics than your carrier," one respondent said. Another program administrator polled share this belief, saying "Be better than the carrier at what you do so they realize that you add value." For another respondent, "It is [the industry] maturing. Just need to make sure it continues to be able to manage books of business more efficiently than the carriers can."

One carrier polled agree with this, saying, "With capital, carriers, retailers, and insureds all getting more sophisticated, PAs will need to expand their expertise to better address the values they are bringing to market including class/line expertise, loss control, and other tangible benefits to producers and insureds. The bar is getting higher all the time."

Some administrators surveyed pointed to the importance of securing the commitment of carriers and making sure that administrators and carriers are on the same page and trust each other.

"I think that there are a lot of good creative insurance people out there on the program administrator side of the business that are unencumbered by big bureaucratic thinking. They are coming up with better ways to build the mousetrap and provide new products every day. The prospects are great. The only thing holding a lot of these ideas back is finding the right carrier partner to really think the same way. They are out there for different products and ideas. They just have to be put together. TMPAA is a great facilitator," one respondent said.

For another poll participant, "Program Administrators have the ability to focus on specific opportunities and understand niches far better than any carriers. When we are at our best, customers, brokers and carriers all want to do business with us as we are experts in our area of focus and we provide true value to all stakeholders. The growth potential in the PA space is the best in the insurance industry, but it would be even better if the level of trust between carriers and PAs was higher."

A number of administrators also underscored the importance of pursuing differentiation in order to succeed. "There is still a great opportunity for smart program administrators to enjoy success through differentiation, specialization, and service," one administrator said. This view is echoed by another respondent who said that "Prospects for the program administration business is bright as long as we continue to focus on market differentiation through our distinctive competencies."

Qualitative responses gathered through the survey also highlight program administrators' recognition of how improved data collection can further boost success for the industry. "Program business should continue to flourish as data collection and data usage evolves. Carriers will become more comfortable outsourcing underwriting. Underwriting results will become increasingly more consistent," one respondent said. For another administrator, "As expense cost for carrier is going up, program business will grow but program administrator need to take more responsibility of collecting and analyzing data."

Carriers also recognize the key role they play in improving data collection and management processes. A carrier respondent said, "The segment will continue to grow as we continue to refine our systems and teach administrators how to collect and manage their data. Sharing this data with our partners is a key component of this success. We also will start to see more convergence on data standards. This will allow more and more producers to aggregate similar exposures and package them as programs." For another carrier polled, "Accurate data capture and analysis in program business is crucial for long-term success."

Amid the challenges posed by overcapacity, competition, and a soft market, it is clear from their comments that both administrators and carriers see a solid future for the program business.

Some carriers' comments show continued confidence in the program model. "I continue to believe the program model can deliver superior returns as it is aimed at specialized business and should contain some distinct sustainable advantage over the general market," one carrier respondents said.

Another respondent said, "As the quality of program business continues to improve, so does its prospect for ongoing expansion. In a softening market, program business can be an efficient way for carriers to grow from an expense perspective assuming that the overall program result is acceptable." Yet another carrier polled share this view, saying "The PA model allows a carrier to bring innovative products and an increased speed to market and expand offerings outside of its core business."

What is the future of the program business? One administrator polled phrased it this way: "Despite the competitive environment, the future's so bright I have to wear shades!"

Survey Summary and Conclusions

Amid the challenges presented by the soft market, players in the program administration business continued to report satisfactory results in 2014, according to ***The TMPAA State of Program Business Study 2015*****.**

Both program administrators and carriers expect this performance to continue in the coming years especially if certain improvements will be made in the way business is conducted.

It is in the area of data collection and management where many respondents see the biggest gap. As interest in big data and its applications continue to increase, respondents believe it is imperative that program administrators enhance their capabilities to collect, transmit, and analyze meaningful and useful data. The role of technology in this area cannot be overemphasized.

The survey also found a limited uptake in terms of predictive modeling among administrators. The impact of predictive modeling on underwriting strategy and profitability is an area that need to be further understood.

Consistent with previous surveys, new program development remains a huge challenge as administrators polled mentioned failure to find a carrier for a start-up program. The number of markets they have to approach for a new program also reflects the difficulty they face.

The 2015 survey is the fifth in a series of annual surveys of program administrators and carriers to track trends in the program business. TMPAA, Advisen, Allied World, BMS Intermediaries, The Chubb Group of Insurance Companies, Ironshore, NetRate Systems, and Rockhill Specialty Programs 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.

Organizers

TARGET MARKETS
Program Administrators Association

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

ADVISEN
Insurance Intelligence

About Advisen

Advisen is leading the way to smarter and more efficient risk and insurance communities. Through its information, analytics, ACORD messaging gateway, news, research, and events, Advisen reaches more than 150,000 commercial insurance and risk professionals at 8,000 organizations worldwide. The company was founded in 2000 and is headquartered in New York City, with offices in the US and the UK. Advisen is headquartered in New York. For more information, visit www.advisenltd.com or call +1.212.897.4800 in New York or +44(0)20.7929.5929 in London.

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COMPANY DESCRIPTION

Allied World has enjoyed tremendous growth and success since our inception in 2001. Our secret? A fundamental, company-wide commitment to customer service. We design and offer risk transfer products that meet the diverse requirements of our clients, have a global branch network that allows us to be responsive to local needs, and deploy a strategy that allows us to be entrepreneurial yet financially secure. While we are constantly striving to expand our global footprint, we are also working diligently to stay close to the communities we serve. Currently, we have 18 offices servicing clients throughout the world.

PROGRAM BUSINESS STRATEGY

Allied World partners with some of the leading program administrators to bring clients the most innovative and comprehensive insurance protection. Together, we build products and services that support niche needs and serve as an extension of our core strategy. We are always looking to find new opportunities and the right partners to further build our programs.

BMS Intermediaries, Inc.

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COMPANY DESCRIPTION

BMS Intermediaries is a US based reinsurance arm of BMS Group. Founded in 1980, BMS Group, a leading independent (re)insurance intermediary, is a private, employee-owned, specialist insurance broker. With teams of experts in the fields of reinsurance, wholesale and direct insurance, BMS is uniquely positioned to deliver exceptional service in all areas of the business. The Group services clients from locations throughout North America, in London, Sydney and Bermuda.

PROGRAM BUSINESS STRATEGY

BMS is partnered with the Target Markets Program Administrators Association as the endorsed reinsurance intermediary to the group. BMS is uniquely qualified to fill this role, with experience staff familiar with the TMPAA and its history, an understanding of the unique culture of the Association and the direct relationships promoted between program administrators and carriers. BMS will work as a partner to improve books of business and bring new capacity to the group, on either an insurance or reinsurance basis, through the use of its global platform and award winning analytical, actuarial and modeling capabilities. BMS will also work with program administrators with smaller books of business, traditionally underserved by the broker community.

CHUBB

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COMPANY DESCRIPTION

Chubb Custom Market Programs is part of Chubb and we specialize in developing customized niche program solutions for program administrators and managers to help them build successful programs.

For over 130 years, Chubb has been a market leader delivering exceptional property and casualty insurance products and services to businesses and individuals around the world. Today, we are the 12th largest property and casualty insurer in the United States and have a worldwide network of some 120 offices in 26 countries.

PROGRAM BUSINESS STRATEGY

Chubb Custom Market Programs identifies opportunities in niche markets. We have partnered with Program Administrators for over 25 years to provide specialized coverage solutions and expertise in the areas of underwriting, legal, claims, product development, information systems and marketing. We look for our Program Administrators to exhibit experience and strong underwriting principles, but equally important the ability to sustain profitability throughout the underwriting cycles. We consistently strive to build lasting relationships and deliver unparalleled service, innovation and financial strength.

Ironshore

www.ironshore.com

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COMPANY DESCRIPTION

Ironshore® provides broker-sourced specialty commercial property and casualty coverage for risks located throughout the world. Ironshore's North American operations write commercial property and casualty insurance, including a variety of coverages in Management & Professional Liability, Healthcare Liability, Aviation, Marine Re, Construction, High Value Homeowners, Programs, Environmental, Political Risk and Trade Credit, as well as Energy, Yacht, War and Terrorism, Surety, Property and Casualty. Specialty coverages are underwritten by Lloyd's through Ironshore's Pembroke Syndicate 4000.

PROGRAM BUSINESS STRATEGY

Ironshore® understands the needs of Program Administrators, and that's why our coverages are carefully designed to help meet their market demands. Ironshore Programs is interested in select segments of General Liability, Professional Liability, Malpractice Liability, Umbrella and High Net Worth Personal Lines. We are looking to develop profitable and long-term relationships with Program Administrators that have the underwriting, marketing, and distribution expertise on non-commodity classes of business. The target attributes that Ironshore Programs is looking for include: Homogeneous groups of small-to-medium sized insureds, classes of business that are underserviced by the insurance market and have measurable size (minimum of $3M) and solid growth potential.

NetRate Systems

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COMPANY DESCRIPTION

NetRate Systems is a software solutions provider that offers commercial lines rating, policy issuance, and data reporting and analytics solutions to program administrators and the carriers that support them. Over 65 clients trust us to deliver mission critical solutions every day. Our NetRATE Commercial Lines Rating and NetPPS Policy Issuance solutions allow our customers to rapidly deploy a complete rate, quote, and issue system. Our insurance savvy, US based development and support team maintains all the major ISO Commercial Lines and NCCI Workers Compensation rules and rates so that with a small configuration effort your custom program can be on the market in a snap. Included with our cost-effective solutions are maintenance of rates, rules and forms, and hosted web services.

PROGRAM BUSINESS STRATEGY

Program administrators and carriers, find that our unique turn-key solutions provide rapid deployment of existing and new programs without the need of additional IT staff or equipment. The NetRate team configures, deploys, and maintains the rating and policy issuance solutions while your teams are driving them. The solutions are capable of handling multiple carriers and/or programs in one easy to use solution. Our data reporting and analytics solutions reduces the work of reporting to managers, carriers, ISO, and state DMVs. NetRate is built with integration in mind. Whether you already use one of our integration partners solutions or another, we are ready to make that connection. For carriers our hosted NetSynergy rating web services makes connecting your programs to comparative raters easy.

Rockhill Specialty Programs

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COMPANY DESCRIPTION

Rockhill Specialty Programs (RSP) is led by Greg Doyle and is based in Durham, North Carolina. At RSP, we identify and form strategic partnerships with Program Administrators that have developed expertise and can demonstrate a quantifiable track record of generating underwriting profits. We have both admitted and non-admitted capabilities and we are licensed nationwide. Our philosophy is to respond quickly with our knowledgeable team and to limit channel conflicts.

PROGRAM BUSINESS STRATEGY

Target programs are specialized in either class of business or industry segment, and are differentiated in the marketplace through reputation of the Program Administrator, underwriting knowledge, territory, distribution, and/or specialized approach such as predictive modeling.

We have a broad appetite by line and class of business.