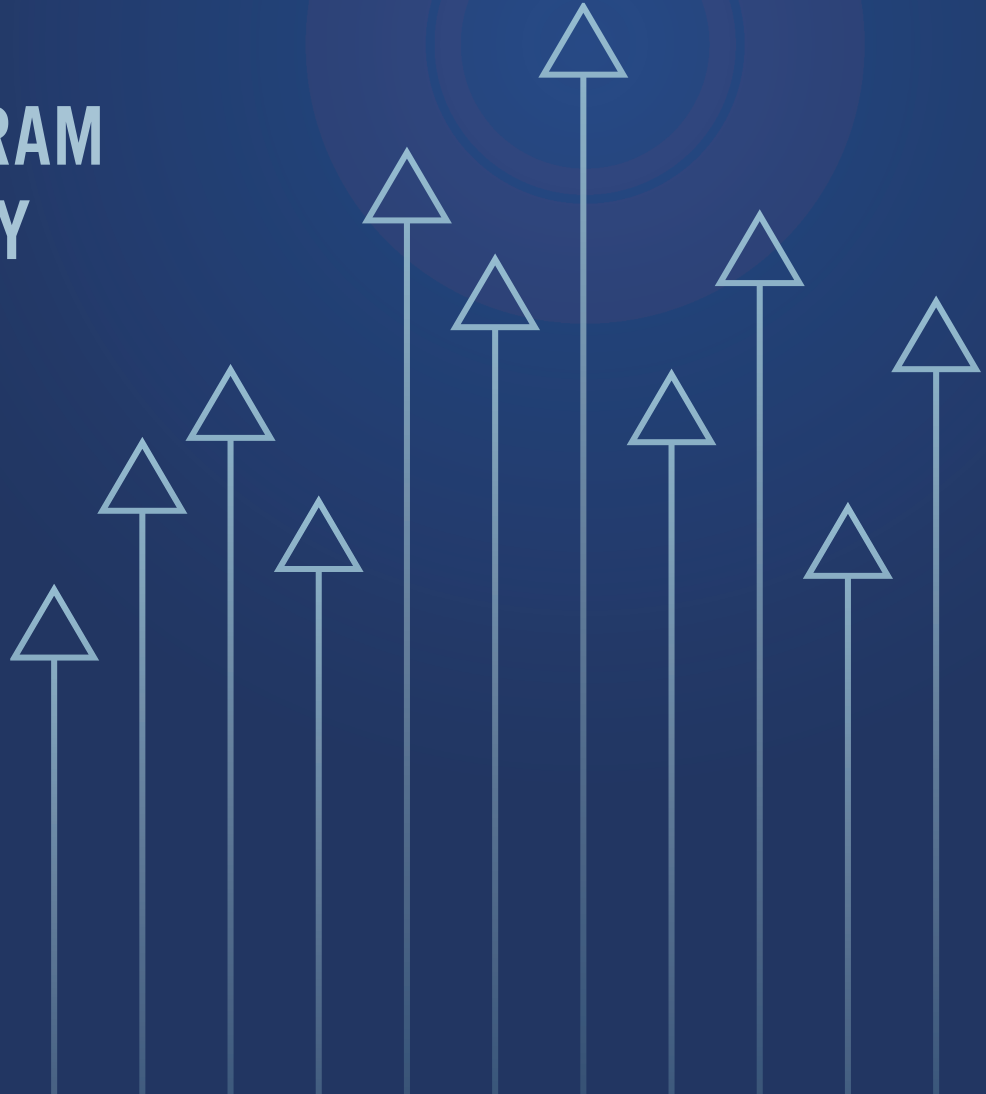
TARGET MARKETS
Program Administrators Association

THE TMPAA STATE OF PROGRAM BUSINESS STUDY 2019



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INTRODUCTION AND EXECUTIVE SUMMARY

Program business has proved to be an advantageous business model for both the carriers and the distributors. It should continue to gain momentum and attract a larger share of the commercial insurance premium dollar," an administrator who participated in The TMPAA State of Program Business Study 2019 commented.

Amid a good economy and the growing recognition of the value of programs, program business continued its success story in 2018. ***The TMPAA State of Program Business Study 2019*** found that program administrators continued to enjoy a vibrant market as they posted positive results in terms of renewal rates, net revenue, and premiums administered.

After reporting a slowdown in growth in the previous surveys, ***The TMPAA State of Program Business Study*** saw growth getting back on track as the percentage of administrators who reported increases in premiums administered rose between 2016 and 2018.

With its upbeat results, program business continued to outpace the overall commercial insurance marketplace. Administrators and carriers polled expect this trend to continue and see a bright future for the program space.

The TMPAA State of Program Business Study is an annual survey that documents the size of program business and tracks various trends that shape the market. Since it was launched in 2011, the survey has documented the rapid growth of program business insurance market. From $17.5 billion in commercial insurance revenue in 2010, program business has grown to $40.5 billion in 2018.

Survey results provide meaningful benchmarking data to nearly 500 members in conducting their businesses more efficiently with greater proficiency and profitability. ***The TMPAA State of Program Business Study 2019*** is the seventh in a series of surveys that started in 2011. The 2019 report presents 2018 business results.

Since the TMPAA did not conduct the survey in 2018 for 2017 results, most of the comparative analysis in this survey report focuses on changes between 2016 and 2018.

Apart from reporting on the continued growth of program business, the annual study also tracked changes in views and practices related to insurance technology and cyber coverage. The 2019 poll also introduced the topic of inclusion and diversity, one of the most closely watched topics in every industry.

Respondents to the survey include 194 program administrators and 61 carriers.

The research was conducted by the Target Markets Program Administrators (TMPAA) 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 Allianz, Allied World, AmWINS, Live Oak Bank, and NetRate Systems – members of the TMPAA.

METHODOLOGY

For the seventh time, the TMPAA and Advisen collaborated on a survey designed to document the characteristics, growth, dynamics and other information about program business market.

An online survey of TMPAA members was conducted between 11 June and 23 August 2019. The survey was completed at least in part by 255 participants. One hundred ninety-four respondents classified themselves as program administrators, while 61 registered as carriers.

We define program administrators as firms providing insurance products targeted to a particular niche market or class that are placed with one carrier. Program administrator responsibilities include underwriting selection, binding, issuing, and may also include marketing, billing, premium collections, data gathering, claims management/loss control and possibly risk sharing.

On the other hand, an insurance carrier delegates 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.

The question topics for the 2019 survey, which focused on program size and strategy, the pricing environment, risk appetite, involvement with insurance technology, cyber coverage, and risk sharing practices, were designed and reviewed by a committee of TMPAA member Program Administrators and Carriers, the TMPAA Advisory Board, and Advisen. They also reviewed the survey results.

New to the 2019 poll is the series of questions aimed at gathering baseline data on the views and practices of administrators and carriers related to diversity in the workplace. Specifically, respondents were asked about the percentage of women and minorities in their firms' senior management.

In addition to the quantitative responses, the survey participants were also encouraged to respond to a series of open-ended questions designed to gather further insight into ongoing trends. Program administrators and carriers provided commentary on a number of topics including the strengths and weaknesses of program business, the opportunities and threats that they are witnessing, and the future of the program space

The responses were collated and analyzed by Advisen. Consistent with the methodologies in previous surveys, Advisen segmented the respondents into three roughly equally sized groups based on premium volume in analyzing the survey results. 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. A comparative analysis of the two group's practices and views was conducted to provide further insight into the various survey topics.

Significant differences were also highlighted between the larger and smaller program administrators.

Between the time the survey was designed and the collation of survey results, the pricing environment started to change significantly. This prompted the TMPAA and Advisen to conduct an interview of the survey's panel members to probe them regarding the impact of this change on the program administration business. Their commentary, which forms part of the various sections of the report, has further enriched the discussion on key topics.

It should be noted that other reports regarding the MGA/program business space are based on industry data and not refined down to the TMPAA's description of a program administrator. ***The TMPAA State of Program Business Study*** reflects the views solely of program administrators and carriers.

KEY FINDINGS

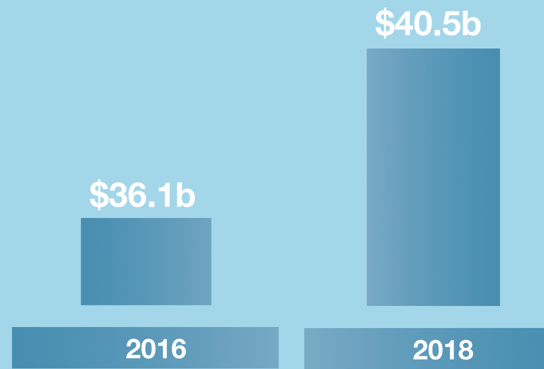
- Program business sustained its growth momentum in 2018 as program administrators posted positive results in terms of renewal rates, net revenue, and premiums administered.
- Consistent with insurance industry reports on commercial P&C premium prices, administrators and carriers who participated in the survey both reported rate increases across all lines of business except workers compensation.
- Program business is positioned for further expansion as administrators polled indicate plans to introduce more programs and carriers pursue expansion through new programs.
- Administrators saw marginal improvement in take-up rates for cyber coverage between 2016 and 2018. Still, there is plenty of room to grow for cyber in program business.
- Administrators' involvement with insurance technology increased dramatically between 2016 and 2018. Many of those polled from both administrator and carrier groups are involved with insurance technology – some more heavily than the others.
- The majority of program administrators and carriers who participated in the 2019 survey see insurance technology as enabling and are applying it in various business processes such as underwriting, data collection, and policy delivery.
- Technology was identified by many administrators and carriers as both the greatest opportunity and threat to program business.
- Carriers appear to have greater success in ensuring diversity by including minorities in their senior management, while administrators have greater success in including women in their senior management.
- Program administration is a large business at $40.5 billion in premiums in 2018. The estimated size of the market rose 12.18 percent from $36 billion in premiums in 2016.
- Program business is growing more quickly than the overall commercial insurance marketplace. While the size of program business rose 10.36 percent in 2018 , the growth in direct premiums earned for commercial lines increased by 9.97 percent in 2018.
- Since TMPAA inaugurated the market study, program premiums rose 131 percent from $17.5 billion in 2010 to $40.5 billion in 2018.
- The estimated number of program administrators in the U.S. held steady at 1,000 despite active consolidation in the industry.

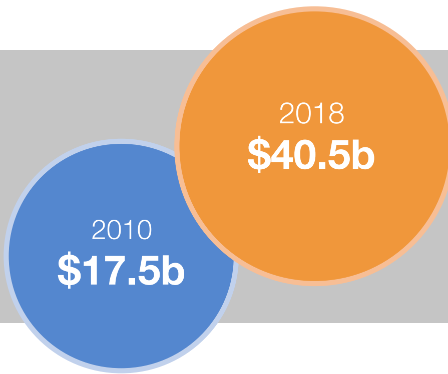
2018
PROGRAM BUSINESS BY THE NUMBERS

The TMPAA State of Program Business Study 2019

$40.5 billion
in premiums in 2018

12.18%
increase in estimated size of the program business





131%
increase in program revenues from **$17.5 billion** in 2010 when TMPAA inaugurated the market study

The estimated number of program administrators in the U.S. held steady at 1,000 despite active M&A activity

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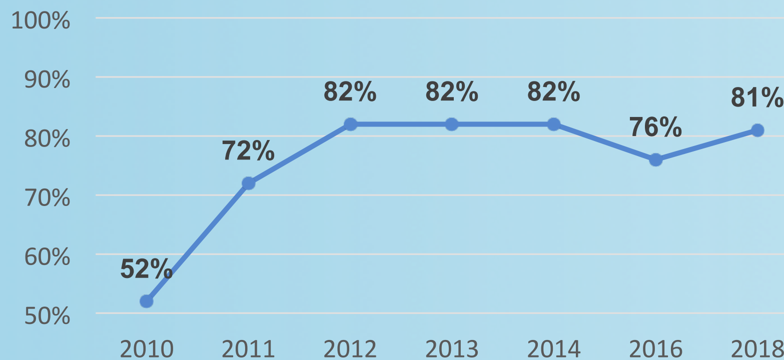
Program business' success story

continued as the industry posted upbeat results in 2018

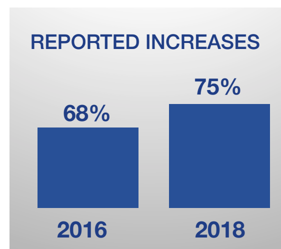
Program business continues to outpace the overall commercial insurance marketplace.

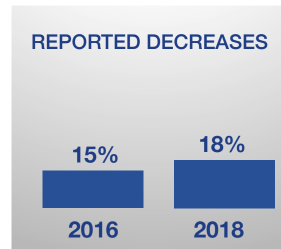
While the size of program business rose 10.36% in 2018, the growth in direct premiums written for commercial lines increased by only 9.97% in 2018.

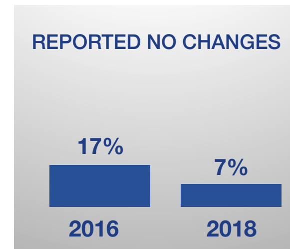


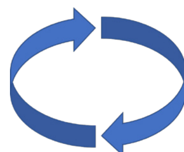
The percentage of administrators who reported increases in premiums administered went up from 76% in 2016 to 81% in 2018

A higher number of administrators reported increases in gross program administration revenues in 2018.









Average renewal rate increased from 83.7% in 2016 to 84.5% in 2018

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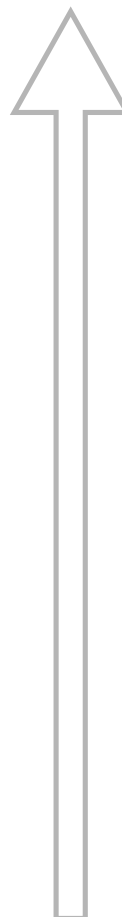
Administrators and carriers reported rate increases across most lines of business in 2018



A greater percentage of administrators and carriers reported **increases for most LOBs.**

Workers compensation stood out as the only LOB where reports of rate decreases far outweighed increases.

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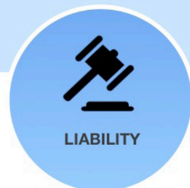
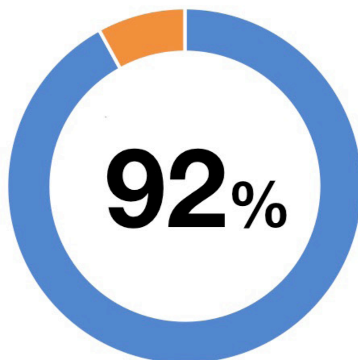
Program business
is positioned for further expansion.

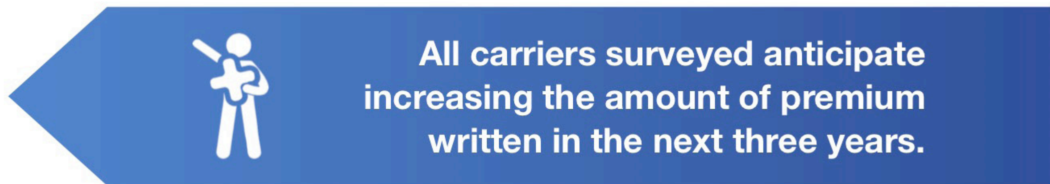
84% of administrators polled plan to introduce new programs in the next two years

Carriers plan to expand across most lines of business, especially



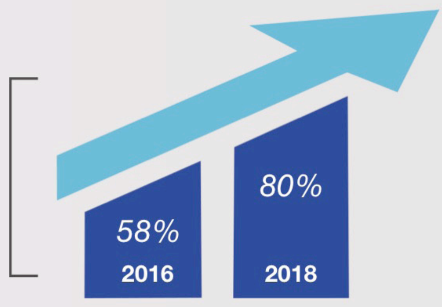


of carriers polled plan to expand within the next three years by partnering with either existing or new administrators.



All carriers surveyed anticipate increasing the amount of premium written in the next three years.

Program administrators' **involvement with insurtech** increased dramatically between 2016 and 2018.

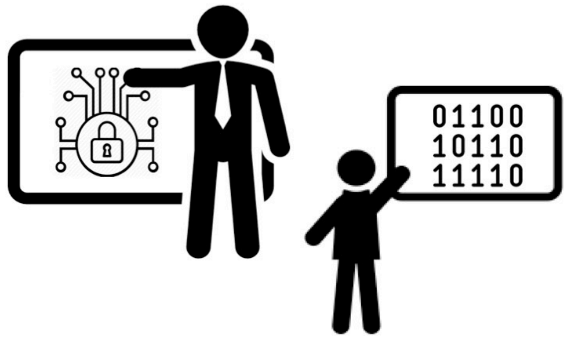


Administrators reporting involvement with insurtech increased from ***58% in 2016 to 80% in 2018.***

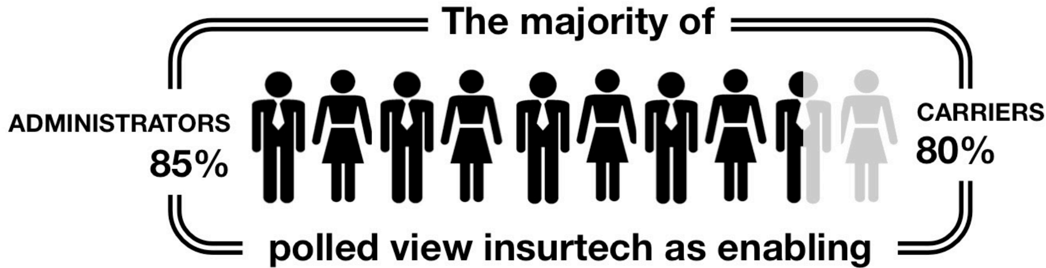
Carriers and administrators have almost the same level of involvement, unlike in the 2017 poll.

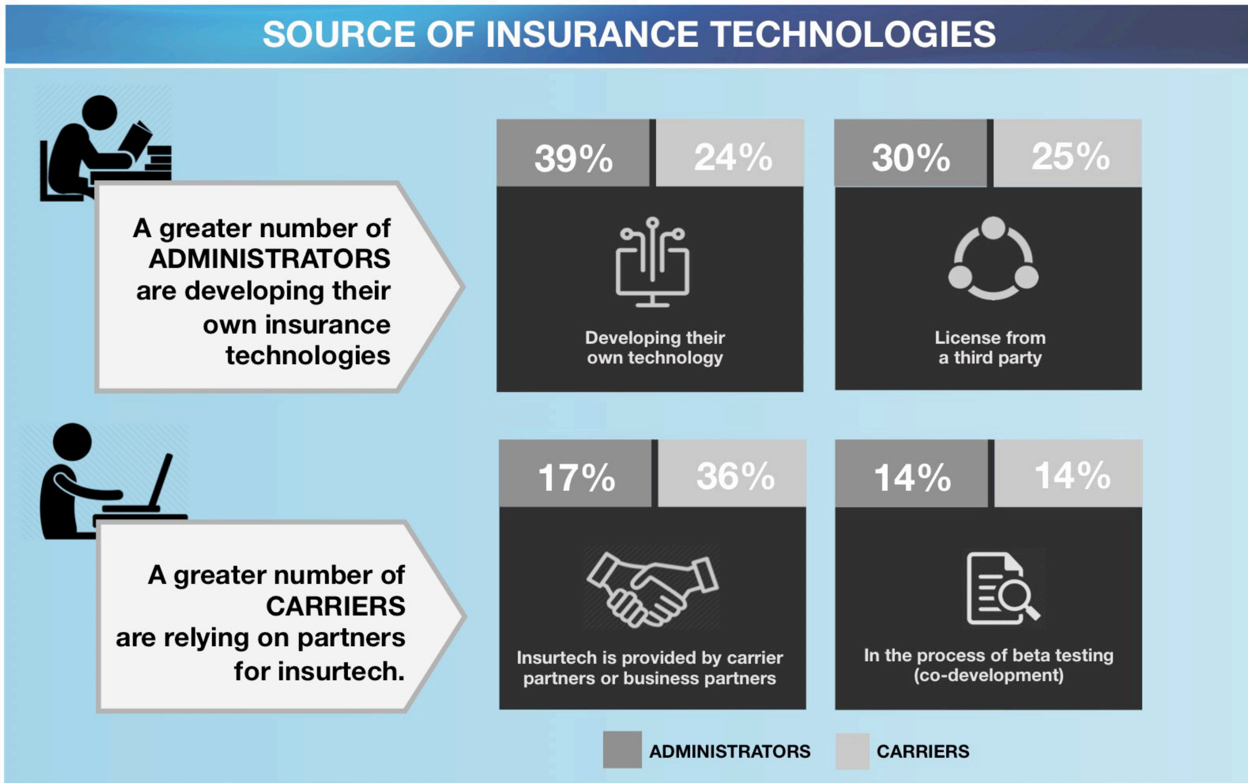
ADMINISTRATOR VS **CARRIER**

Larger administrators tend to be more involved with insurtech than their mid-sized and smaller peers



Administrators and carriers view
insurtech as **enabling**





UNDERWRITING
topped the list of business processes where administrators and carriers apply insurtech.

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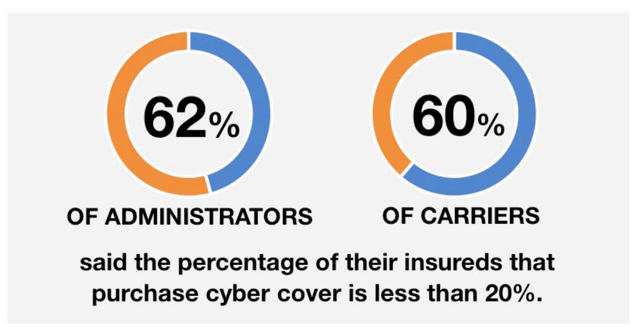
Take-up rates for cyber improved among administrators as the percentage of respondents reporting

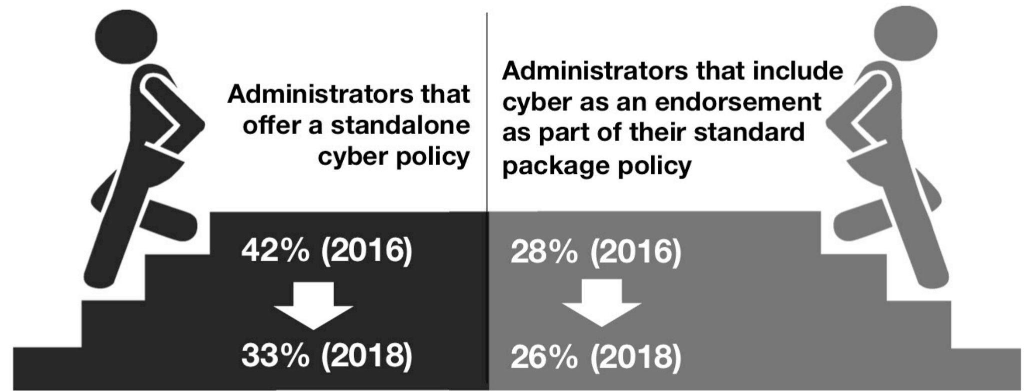
11% to 20% **21% to 30%**

and greater than 50%

in terms of percentage of insureds purchasing cyber cover went up between 2016 and 2018.



56% OF CARRIERS offer their program administrators cyber cover to add to their program packages.



PROGRAM ADMINISTRATORS

Demographics

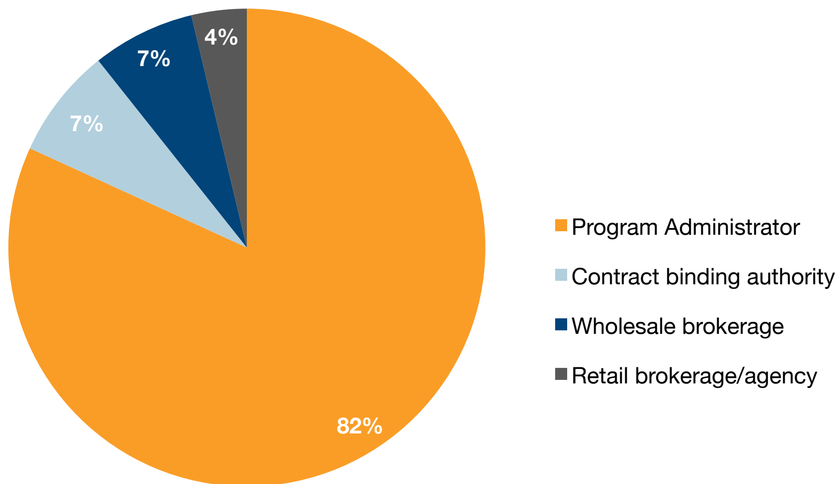
A total of 194 program administrators provided their views to ***The TMPAA State of Program Business Study 2019.*** This is significantly higher than the 166 respondents in the 2017 poll and the 156 participants in the 2015 survey.

Respondents vary significantly 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. The profile of this year's respondents is vastly different from those from prior surveys in terms of gross written premiums and the number of programs they administer.

Program Administrator Information

While all respondents administer at least one program, the majority of respondents (82%) reported that Program Administrator best describes their firm. Seven percent describe themselves as Wholesale Brokerage, seven percent as a Contract Binding Agency, and four percent as Retail Brokerage/Agency.

DESCRIPTION OF FIRM



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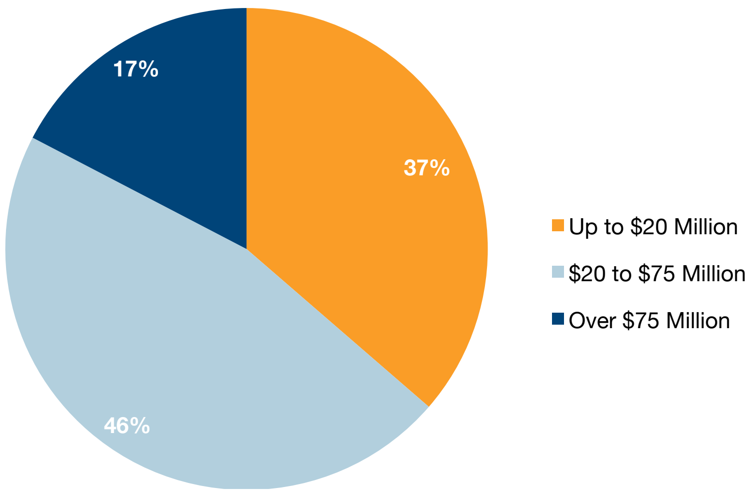
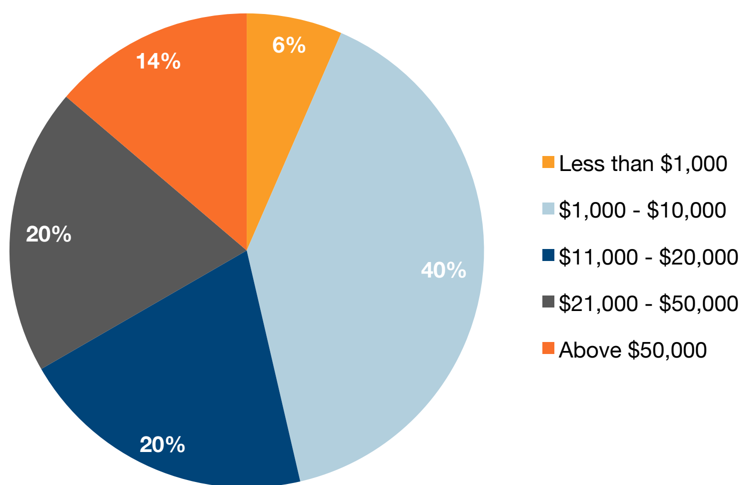
This year's respondents are relatively smaller in terms of gross written premiums compared to the 2017 participants. Forty-six percent of the administrators polled say their total gross written premiums for programs is $20 million to $75 million, 37 percent say up to $20 million, while the remaining 17 percent say over $75 million.

WITHIN WHICH RANGE DO YOUR ORGANIZATION'S GROSS WRITTEN PREMIUMS FOR PROGRAMS ADMINISTERED FALL?



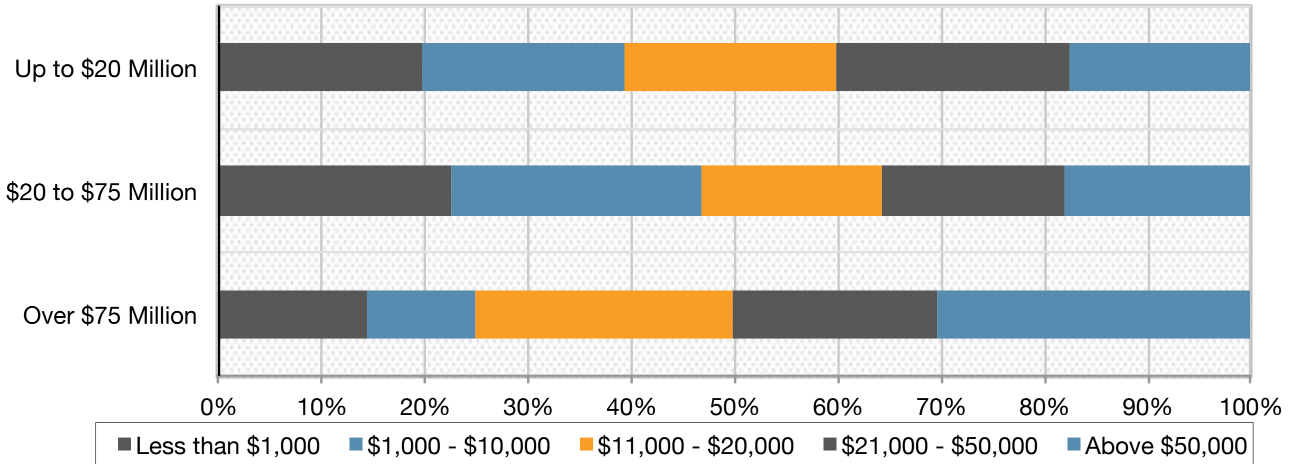
Asked about their average premium per account, 40 percent of the administrators surveyed said $1,000 to $10,000, 20 percent said $11,000 to $20,000, and another 20 percent said $21,000 to $50,000. Fourteen percent of those polled reported an average premium per account of more than $50,000, while six percent said less than $1,000.

AVERAGE PREMIUM PER ACCOUNT



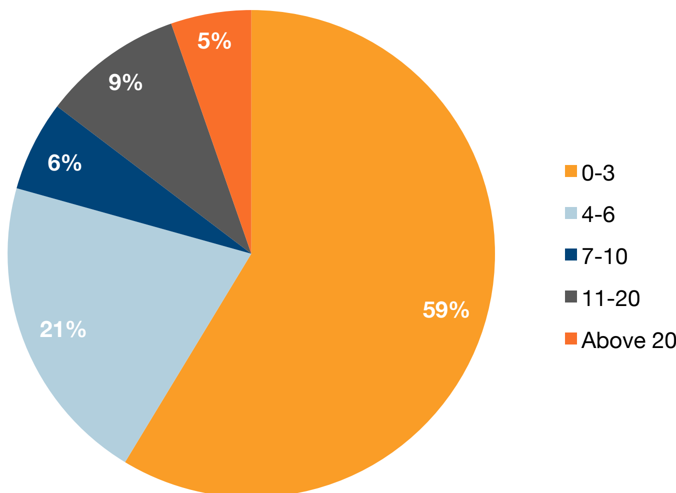
Larger administrators or those with revenue over $75 million reported the highest average premium per account among the three revenue brackets.

AVERAGE PREMIUM PER ACCOUNT BY SIZE OF ADMINISTRATOR



Administrators who participated in the 2019 survey are also small in terms of the number of distinct programs they administer. Fifty-nine percent of the respondents administer three or fewer distinct programs. , 21 percent administer four to six programs. Nine percent of administrators surveyed reported having 11 to 20 distinct programs, six percent said they have seven to ten programs. Five percent of those polled have more than 20 programs.

NUMBER OF DISTINCT PROGRAMS ADMINISTERED



Program Business in a Hard Market

In 2017, ***The TMPAA State of Program Business Study*** started tracking the share of rate increases or decreases across 13 lines of business.

Survey results showed that in the face of a soft market in 2016, liability, management liability, professional liability, excess/umbrella, and workers compensation showed an almost 50-50 share between increases and decreases. On the other hand, fidelity, surety and crime; marine and aviation; property; financial and political risk; medical malpractice; and package had a bigger share of respondents reporting decreasing premiums. Automobile liability insurance stood out as the line of business that created a profit drag for the U.S. property and casualty market such that most respondents had reported rate increases.

The 2019 study took a significant turn as the share of rate increases and decreases for the 13 lines of business shifted such that administrators reported a greater share of increases for all LOBs except workers compensation in 2018 – an indication of a hardening market.

The LOBs with the highest share of respondents reporting increasing premiums included automobile (99%), marine and aviation (93%), property (91%), excess/umbrella (90%), financial and political risk (88%), and management liability (85%).

This finding is consistent with a June 2019 Willis Towers Watson report that showed an increase in commercial insurance prices in the first quarter of 2019. According to the report, material price increases were recorded for commercial auto, commercial property, excess/umbrella liability, and directors and officers liability.

“The auto market continues to face profitability challenges and the reduction of market potential as ride share and autonomous driving continue to increase,” said one carrier polled.

In the case of workers compensation, a greater number of administrators (77%) reported decreases in rates. This finding is in line with reports from the Council of Insurance Agents & Brokers (CIAB) that pricing for all lines of business increased an average of 3.5 percent in the first quarter of 2019 except for workers compensation, which declined by 3.3 percent during the quarter.

One administrator polled identified “decreasing workers’ compensation rates” as one of the weaknesses of program business.

“Workers’ compensation is under much pressure with reducing rates. WC is a significant LOB for the program space,” a carrier respondent said.

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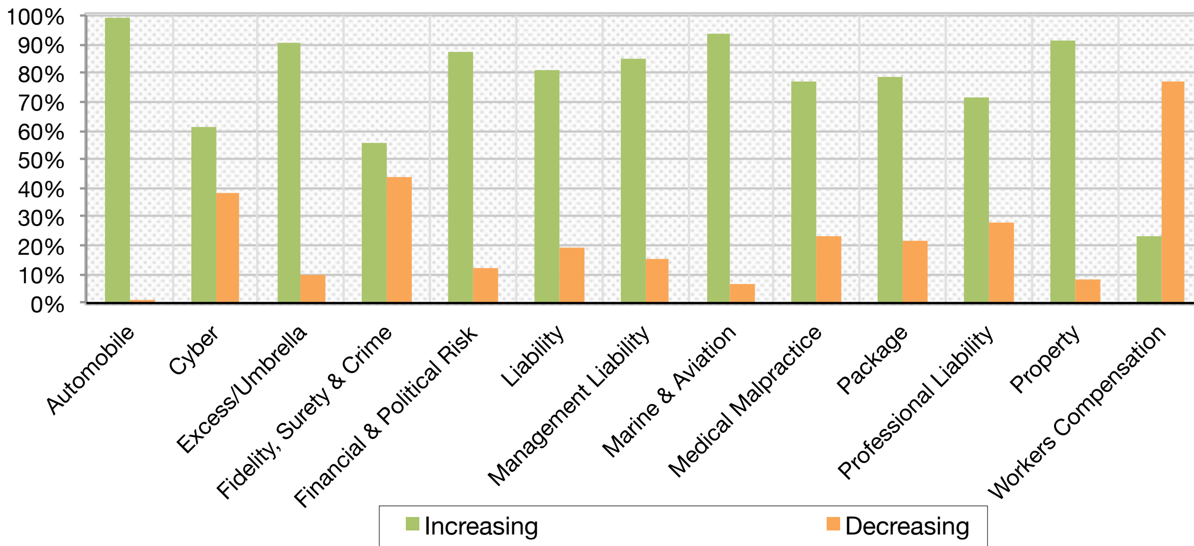
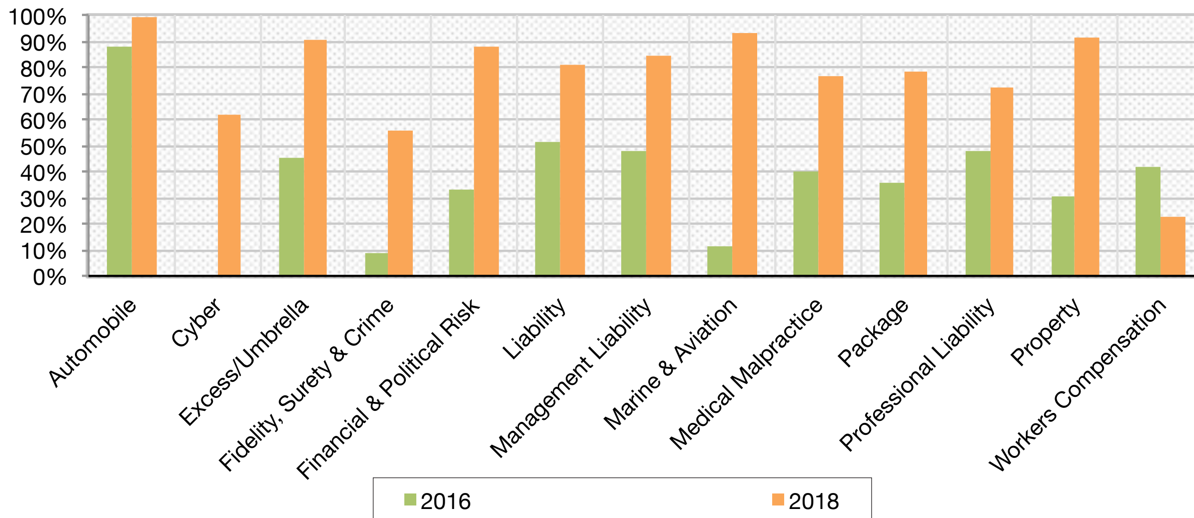
SHARE OF RATE INCREASES/DECREASES BY LINE OF BUSINESS (2018)



COMPARATIVE ANALYSIS OF SHARE OF RATE INCREASES (2016 VS 2018)



Are companies pulling out of lines of businesses as the market hardens?

A number of TMPAA Program Study panelists pointed to the shake-up in the Lloyds market.

"In my opinion, London is where there is a bit of shake-up, and they will probably do a second round of getting rid of some unprofitable business, but other than that, I haven't seen anyone getting out of our program on the domestic side," commented Yiana E.Stavrakis, Chief Sales Officer, Specialty Program Group.

For Amy Malanaphy, NA Regional Head of Midcorp Programs & Facilities, Allianz Global Corporate & Specialty. "What we see is a very selective exiting really based on individual carrier results in an industry."

"It's more of a reshaping of the carriers' portfolios without regard to what distribution is whether it's traditional retail or through a program. We see carriers rethinking their portfolio mix," Christopher Pesce, President of Maritime Program Group and President of TMPAA.

Tyler Hamilton, VP, Director of Program Development of Alliant Underwriting Solutions "sees constrained appetite for auto, which is obvious given the prolonged profitability issues in the general marketplace. While Alliant programs capacity hasn't been affected, we're seeing some competitors and carriers stepping back on the amount of excess or umbrella coverage they put out there and/or finally recognizing the severity potential of that line of business and getting a more adequate premium."

"I would say that this is not unique to programs either. It's on the direct side too. So whatever I see in programs, I see on the other side of the house, as well," said Kris Hill, President, Alternative Markets at QBE North America.

Program Business Continues to Post Upbeat Figures

Program business has enjoyed phenomenal growth over the past years. Premium growth, a key measure of success, continues unabated. Data collected from this year's survey shows that program administration continued to be a growing and vibrant market in 2018. Many administrators reported growth in their book and expressed great optimism about the future of the program space.

Program business continued to post upbeat figures in 2018. The percentage of administrators who reported increases in premiums administered rose from 76 percent in the 2017 poll to 81 percent in the 2019 survey – the same level reported in the 2012, 2013, and 2015 surveys.

This finding points to a reversal of what was reported in the 2015 and 2017 surveys that the rate of growth in terms of premiums administered was increasing at a decreasing rate.

Of those who reported increases in 2018, 14 percent said premiums administered rose by more than 30 percent, 11 percent increased by 21 to 30 percent, 26 percent increased by 11 to 20 percent, 21 percent increased by four to 10 percent, and nine percent rose by one to three percent. On the other hand, those who reported premium declines remained at 16 percent. Of this number, two percent declined by more than 30 percent, three percent dropped by 21 to 30 percent, three percent by 11 to 20 percent, three percent by four to 10 percent, and five percent by one to three percent. Three percent of administrators polled said their premiums administered were unchanged in 2018. This is lower than the nine percent reported in 2016.

I think program business is the brightest star in the industry and unless it is destroyed by the agents and brokers who carry it, [program business] will be the success story of the next several decades," an administrator respondent commented.

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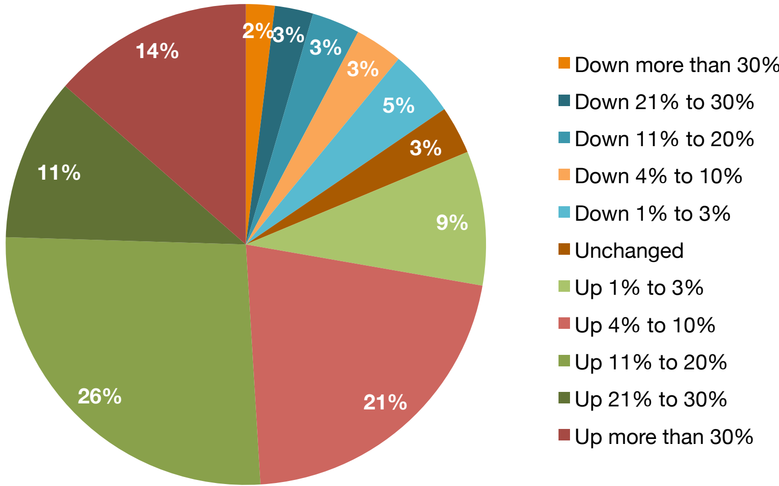
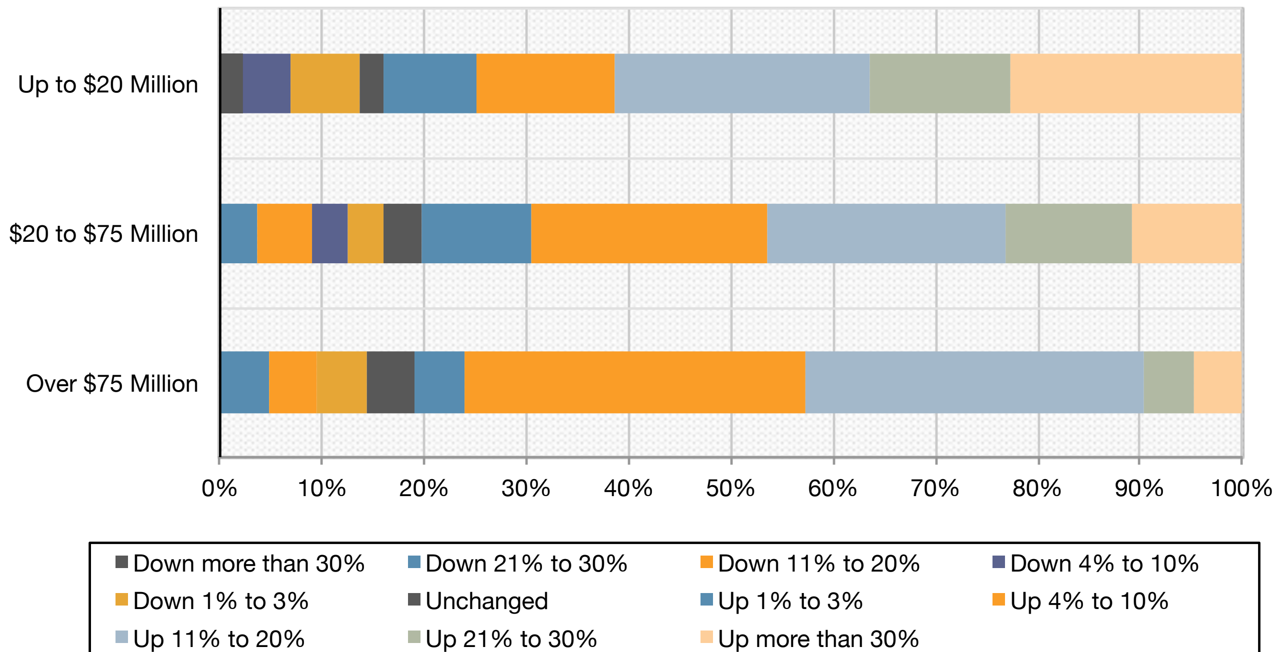
For another administrator, as the world moves toward greater specialization, there will be an increase in premium and commission revenue for the program space.

PERCENTAGE CHANGE IN PREMIUMS ADMINISTERED IN 2018



Smaller administrators or those with revenues of up to $20 million had the greatest proportion of premium increases among the three revenue groups tracked by the survey.

PREMIUM INCREASE BY SIZE OF FIRM



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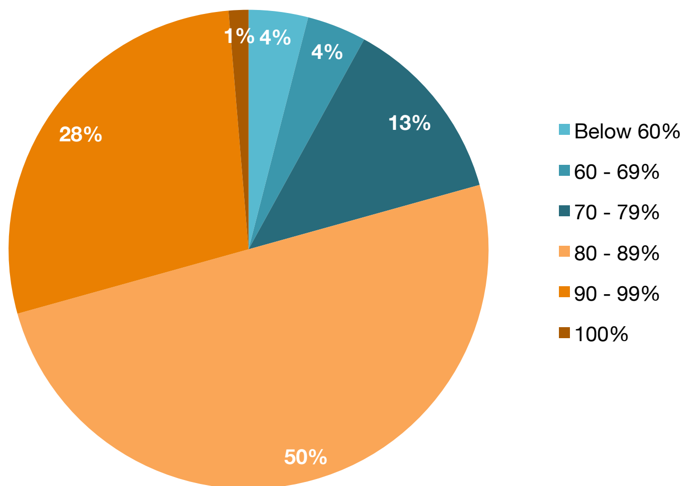
Commenting on churn rates, Tyler Hamilton, VP, Director of Program Development of Alliant Underwriting Solutions, pointed to program administrators' close relationship with their clients as a key factor in their reluctance to shop the business, even in a hardening market.

> "*We communicate with our clients a lot more, I think, because we're closer to them as program administrators. So when we have bad news to deliver, we don't just surprise them with a big increase at the renewal. We explain, [for example], that auto rates are going up because of an increase in poor driving habits (like cell phone usage) and more congested roads result in more accidents. Accidents also cost more, because minor fender benders are not just a metal bumper anymore. It's the bumper plus all the technology embedded in the bumper and maybe an airbag that needs to be fixed. And of course, medical costs and legal expense are also higher. All these things are explained so we can justify the changes we need to make to the retailer and the client. And I think that by doing that in advance, letting people know what's going on and the rationale for it, they're able to understand that and go along with it. They're less likely to just look for someone to provide the coverage for less if they feel like they've been included in the process.*"

Twenty-nine percent of the administrators polled reported renewal rates of over 90 percent, while half registered renewal rates of between 80 percent and 89 percent.

POLICY COUNT RENEWAL RATE



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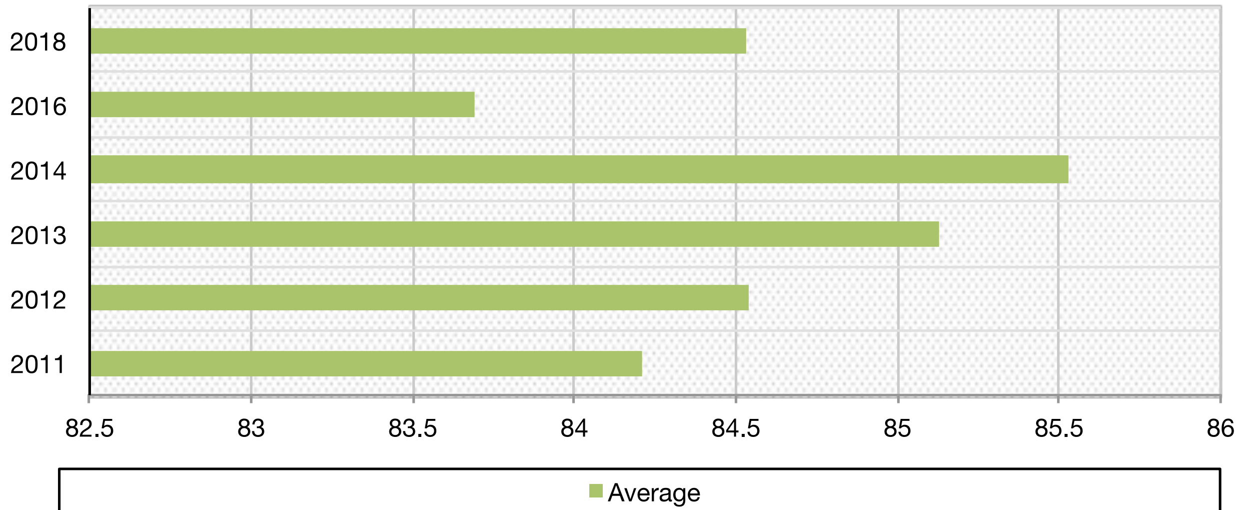
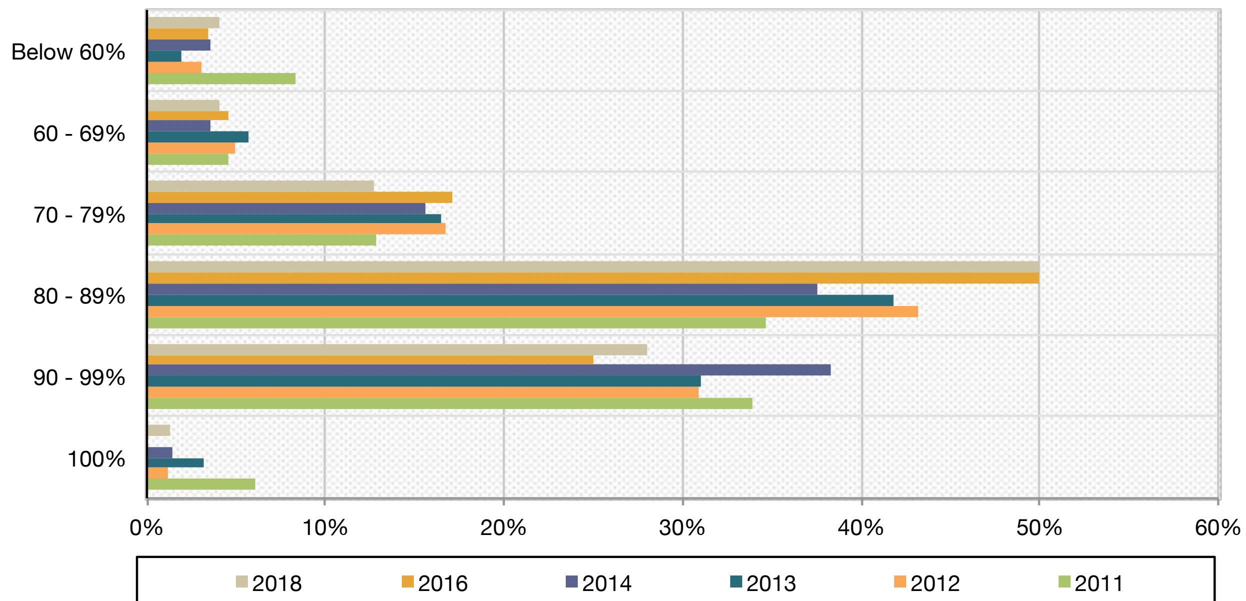
Average renewal rates increased from 83.7 percent in 2016 to 84.5 in 2018.

AVERAGE RENEWAL RATE BY YEAR



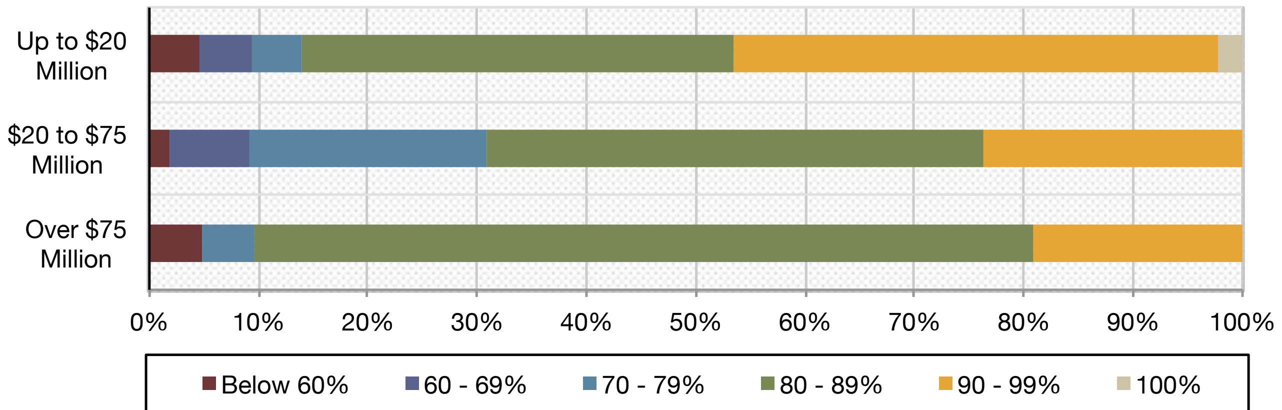
Reversing the results from the previous survey, the percentage of administrators reporting renewal rates of 100 percent and 90 to 99 percent increased, while those who registered renewal rates of between 70 and 79 percent and 60 to 69 percent declined. The percentage of those who reported renewal rates of 80 to 89 percent remain unchanged.

COMPARATIVE ANALYSIS OF RENEWAL RATES (2011-2018)



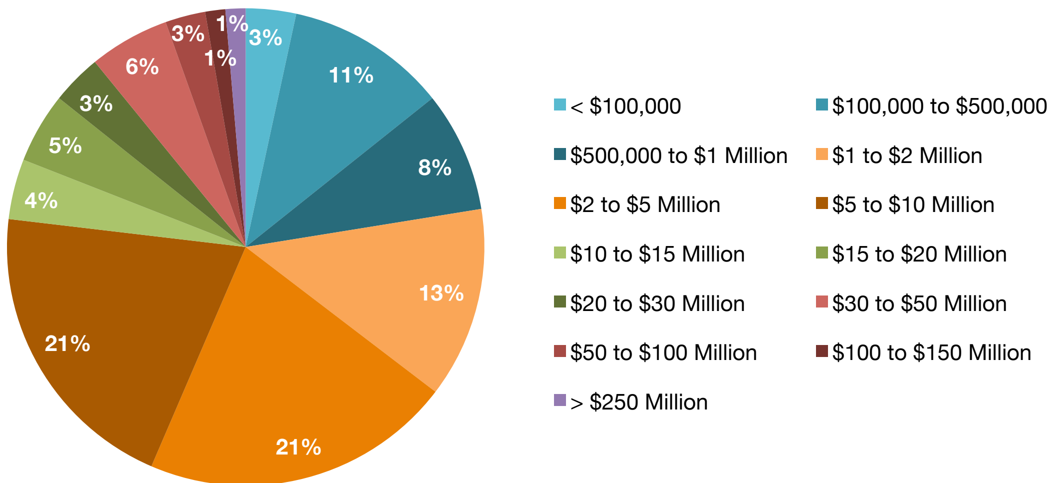
Consistent with the previous survey's results, smaller firms had the greatest proportion of programs with over 90 percent renewal rates.

RENEWAL RATE BY SIZE OF ADMINISTRATOR

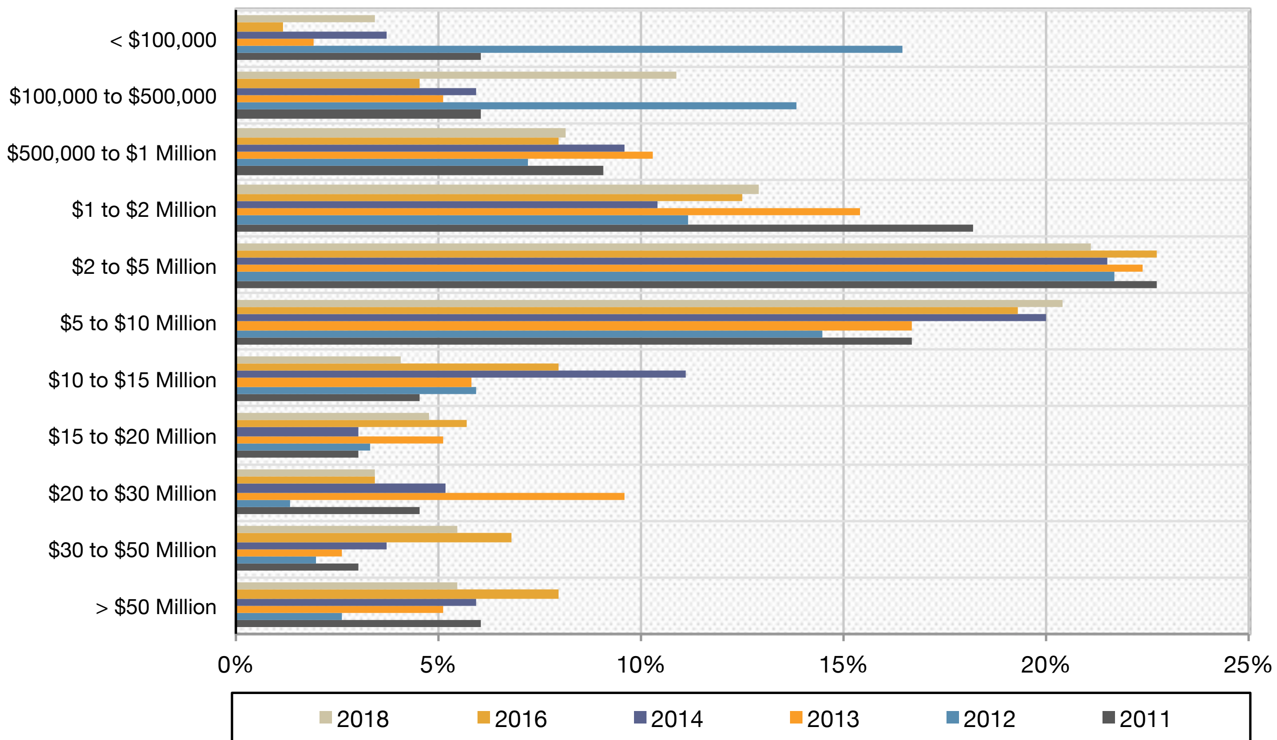


Because the premiums administered are smaller, the revenues of the respondents are also somewhat smaller. Fifty-six percent of program administrators polled are from small firms with gross program administration revenues of less than $5 million. This compares to 49 percent in the previous survey. The percentage of firms reporting revenues of between $5 million and $30 million dropped from 36 in the previous survey to 32 percent in the 2019 survey. Those who reported revenues of more than $30 million dropped from 15 percent in the 2017 poll to 11 percent in the 2019 survey.

PROGRAM ADMINISTRATION GROSS REVENUES (NOT PREMIUMS) IN 2018



PROGRAM ADMINISTRATION REVENUES (2011 – 2018)



After a significant increase between 2014 and 2016, average respondent revenue dropped from $13.04 million in 2016 to $11.1 million in 2018.

AVERAGE REVENUE BY YEAR

Seventy-five percent of respondents reported increases in program administration gross revenues in 2018, significantly higher than the 68 percent recorded in 2016. Eighteen percent reported declines in 2018 – slightly higher than the 15 percent recorded in 2016. Seven percent of respondents reported no changes – materially lower than the 17 percent reported in the previous poll.

Of those who reported increases, seven percent said program administration revenues rose by more than 40 percent, 24 percent increased by four to 10 percent, 21 percent saw increases of 11 to 20 percent, nine percent registered increases of 21 to 30 percent, and eight percent rose by one to three percent. On the other hand, among those who reported declines, seven percent declined by one to three percent, four percent saw declines of four to 10 percent, three percent said program administration revenues went down by 11 to 20 percent, another three percent by 21 to 30 percent, and one percent by more than 30 percent.

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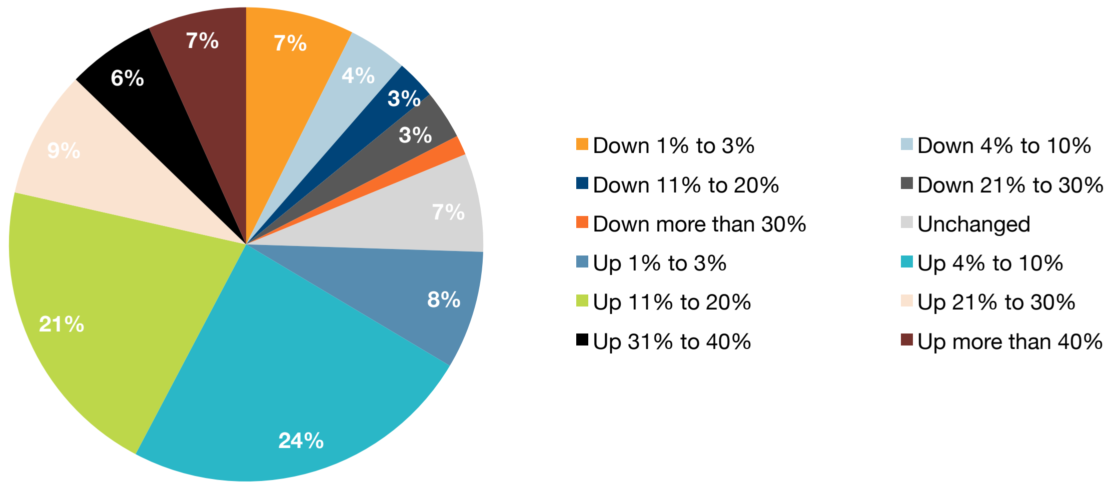
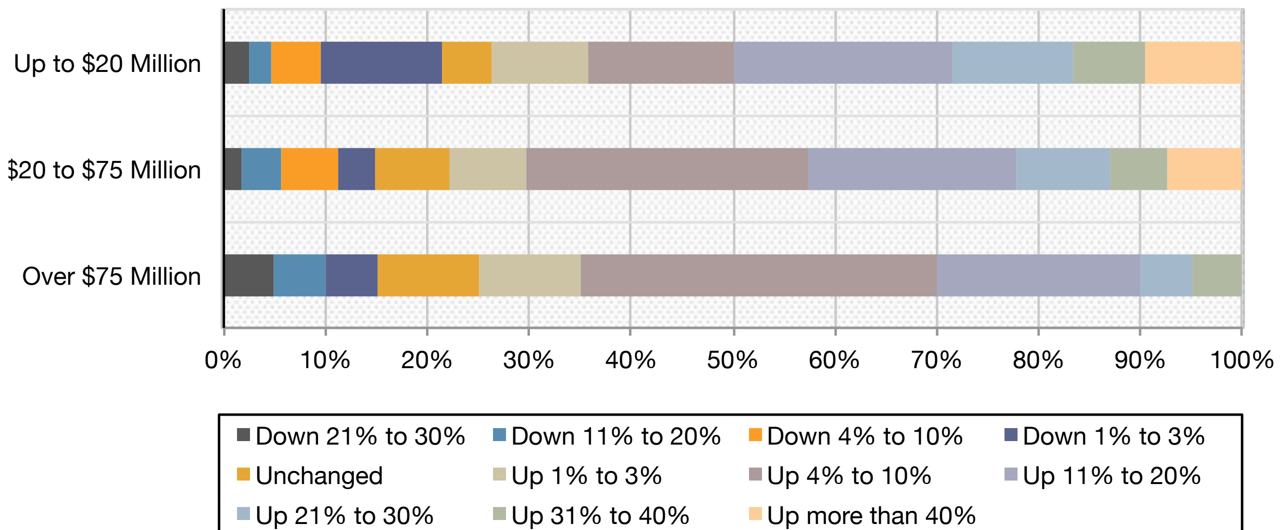
PERCENTAGE CHANGE IN PROGRAM ADMINISTRATION REVENUES IN 2018



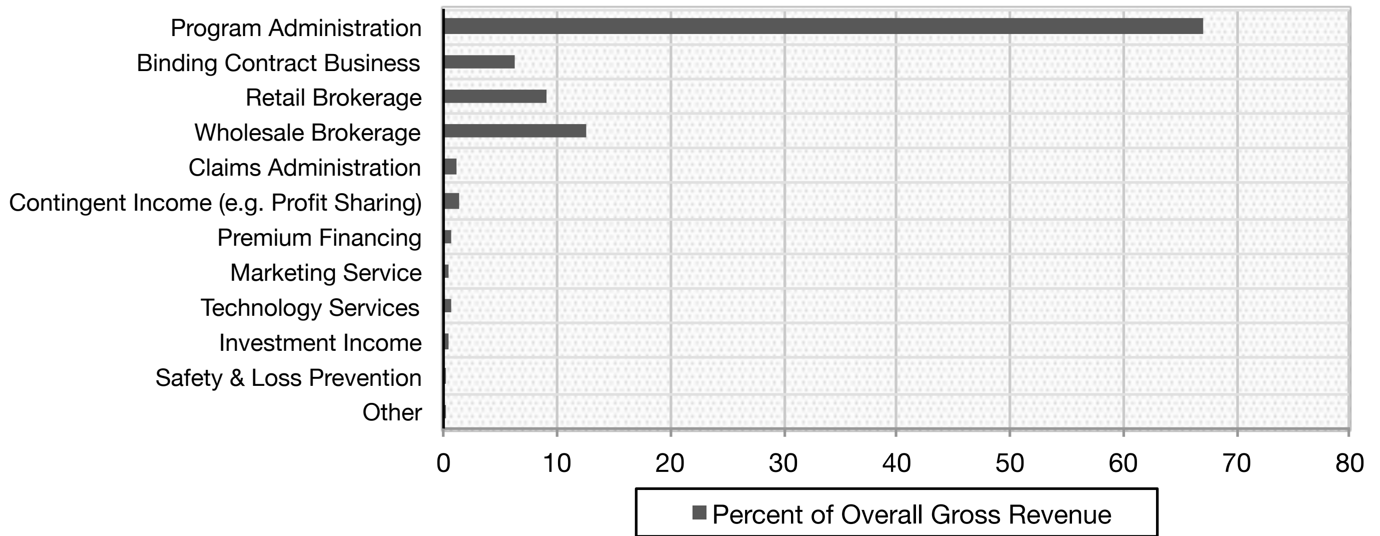
Consistent with findings of the previous years, smaller firms or those with revenue of less than $20 million fared better as they reported the highest proportion of revenue of over 10 percent in 2018.

PROGRAM ADMINISTRATORS' REVENUE CHANGE BY SIZE OF ADMINISTRATOR

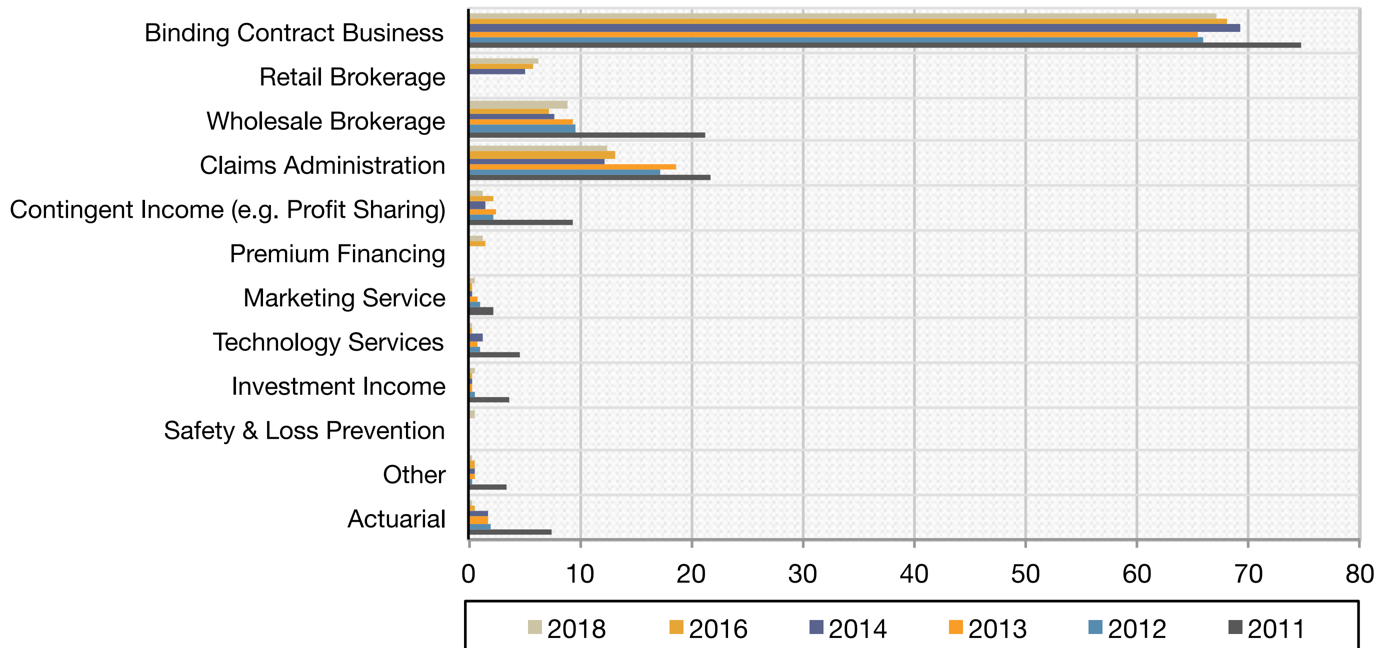


As with the previous surveys, the biggest segment in terms of the approximate split of overall revenues was program administration followed by wholesale brokerage and retail brokerage.

PERCENT OF OVERALL GROSS REVENUE



APPROXIMATE SPLIT OF OVERALL REVENUES



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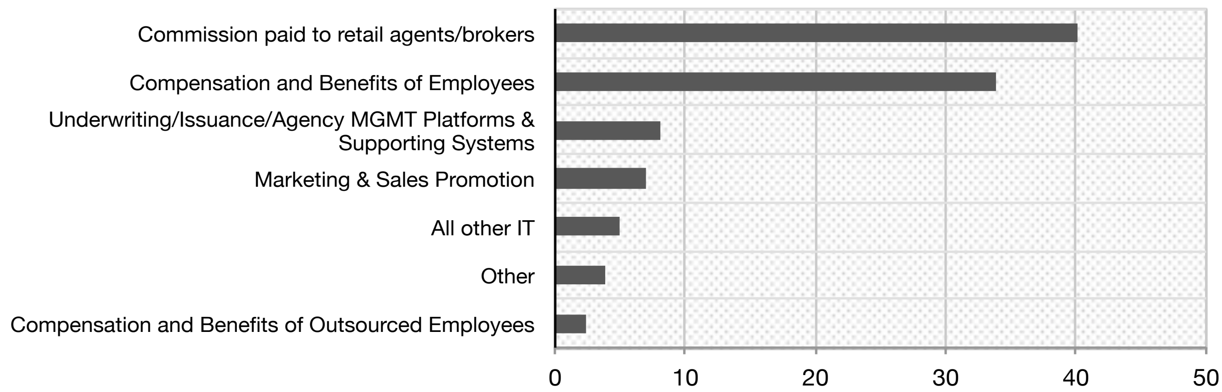
At 40 percent, commission paid to retail agents/brokers remained the largest segment of the approximate split of overall expenses. Compensation and benefits was the second largest segment at 34 percent.

APPROXIMATE SPLIT OF OVERALL EXPENSES IN 2018 (IN %)

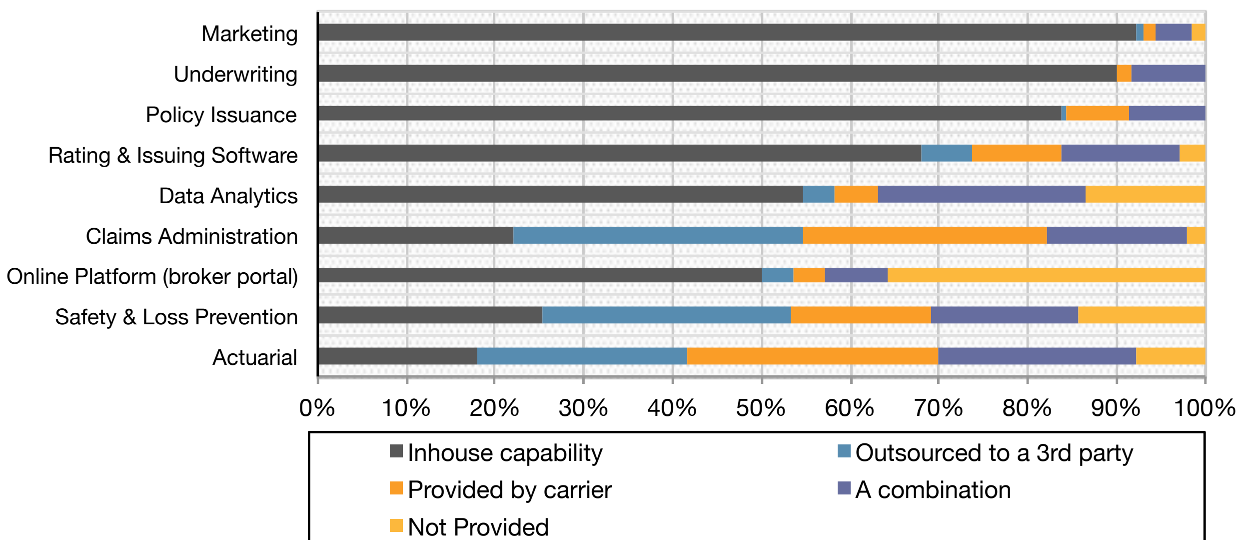


Services Delivered by Size of Administrator

The TMPAA State of Program Business Study continued to track the mechanism for delivering services and check whether these vary significantly depending on the size of the administrator.

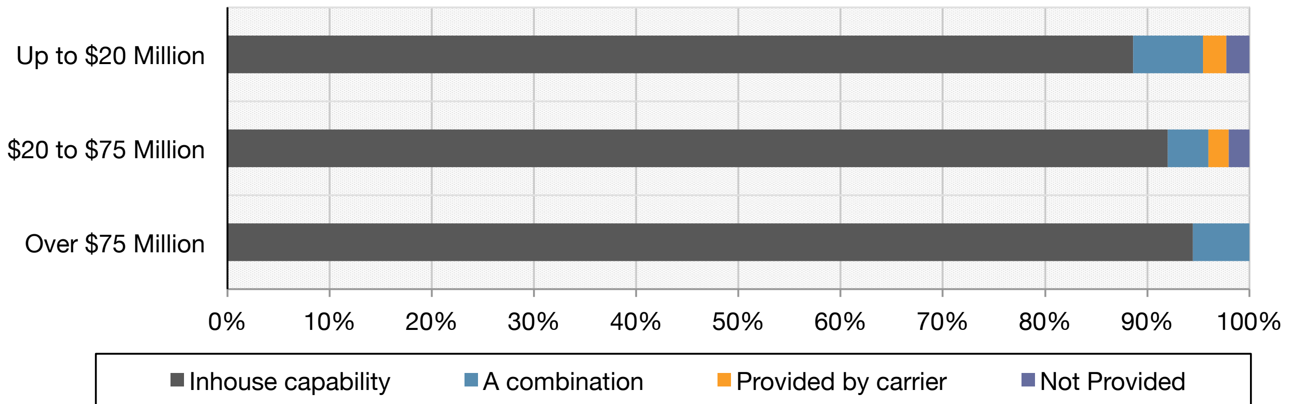
Consistent with the findings of the 2017 poll, results of the 2019 survey show that a large percentage of administrators tend to deliver most of the core services in-house.

HOW SERVICES ARE DELIVERED

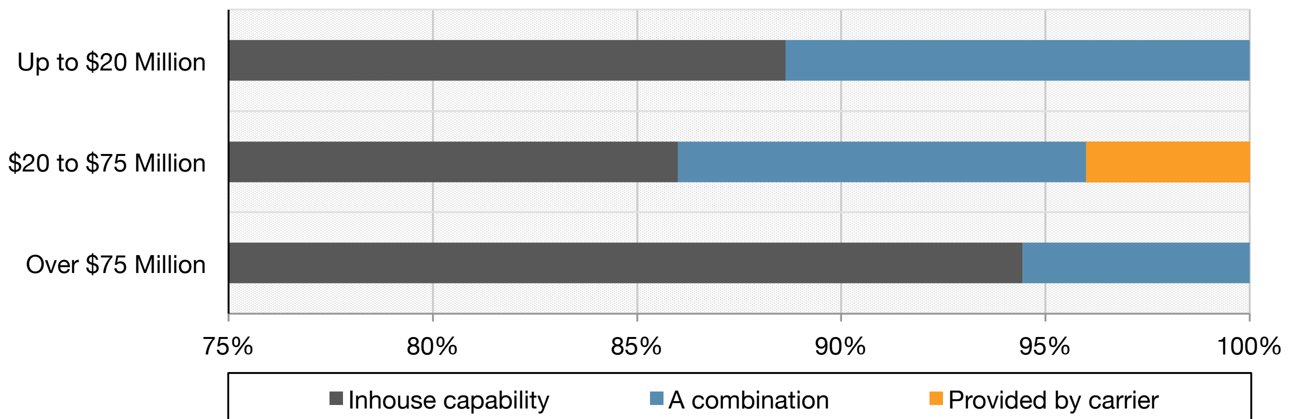


An analysis of the mechanism for delivering services and the size of the administrator shows that the core services – marketing, underwriting, policy issuance, rating and issuing software services, data analytics, and online platform – tend to be provided in-house across all administrator sizes.

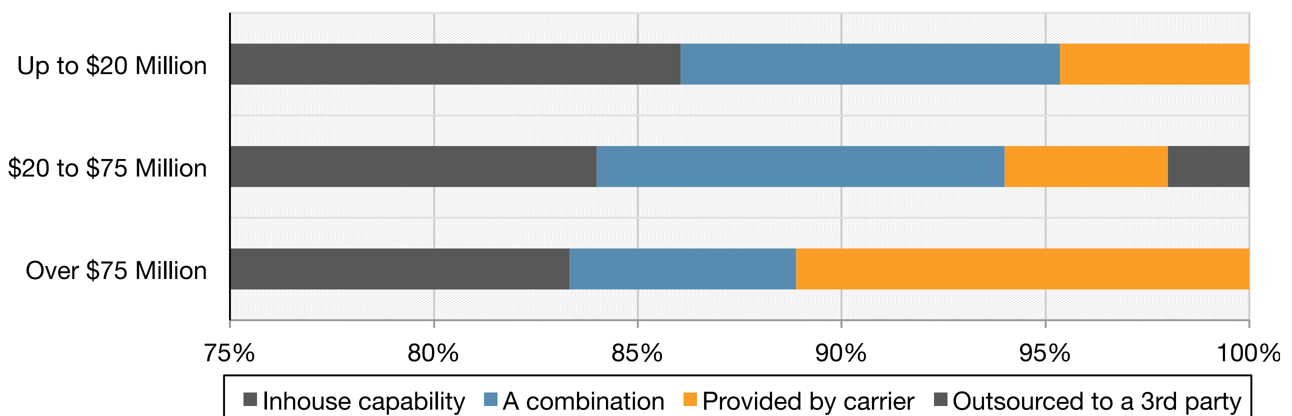
DELIVERY OF MARKETING SERVICES BY SIZE OF ADMINISTRATOR



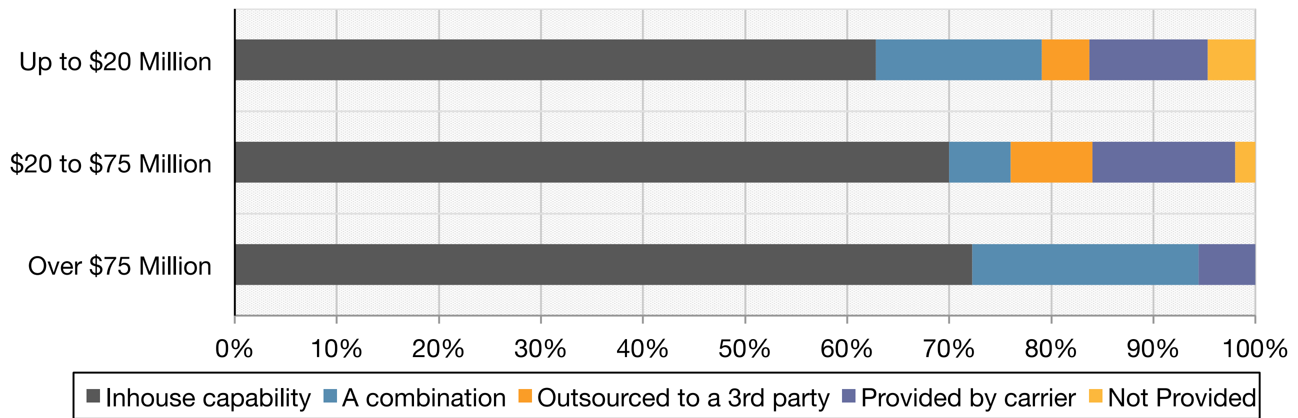
DELIVERY OF UNDERWRITING SERVICES BY SIZE OF ADMINISTRATOR



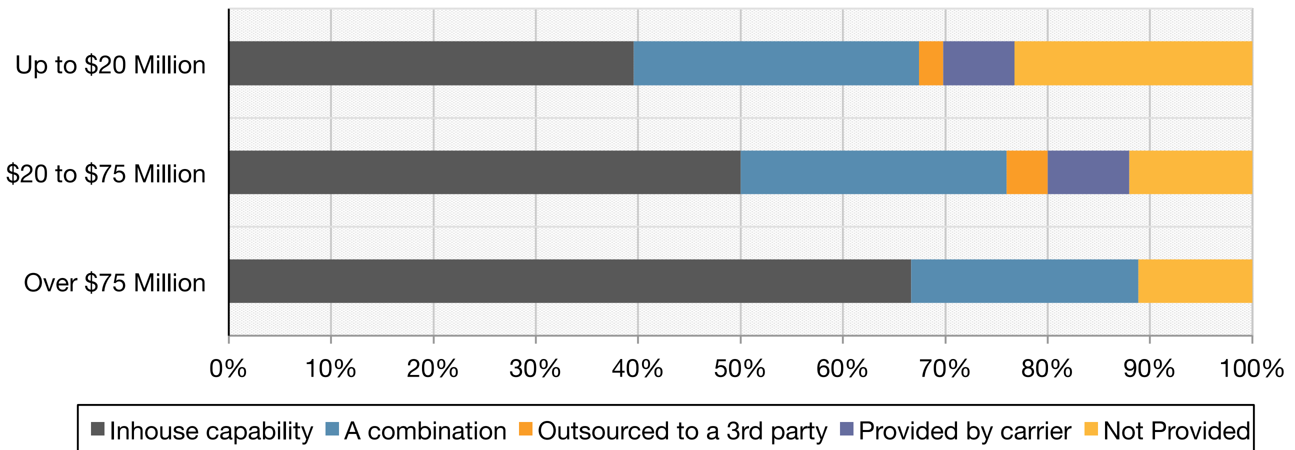
DELIVERY OF POLICY ISSUANCE SERVICES BY SIZE OF ADMINISTRATOR



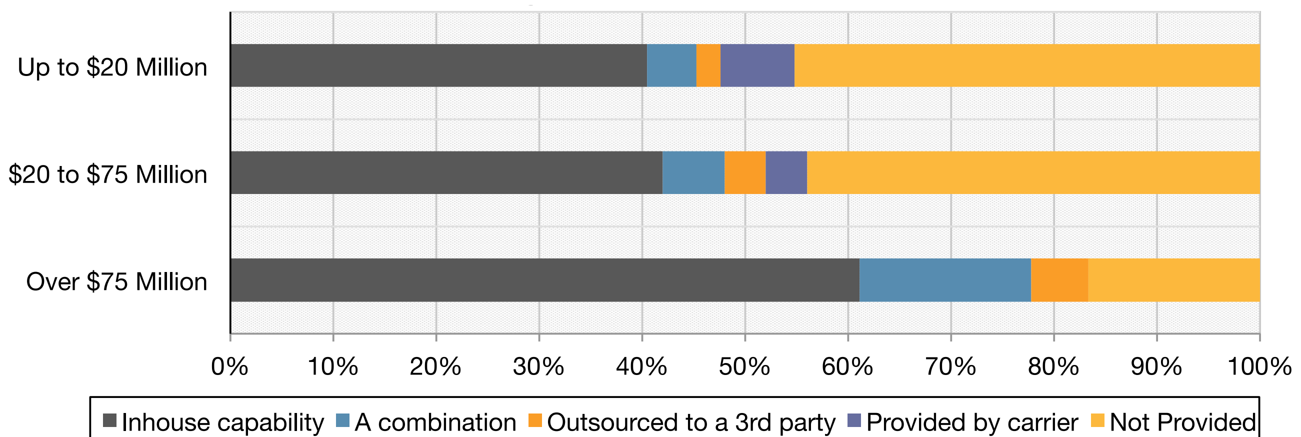
DELIVERY OF RATING & ISSUING SOFTWARE SERVICES BY SIZE OF ADMINISTRATOR



DELIVERY OF DATA ANALYTICS SERVICES BY SIZE OF ADMINISTRATOR

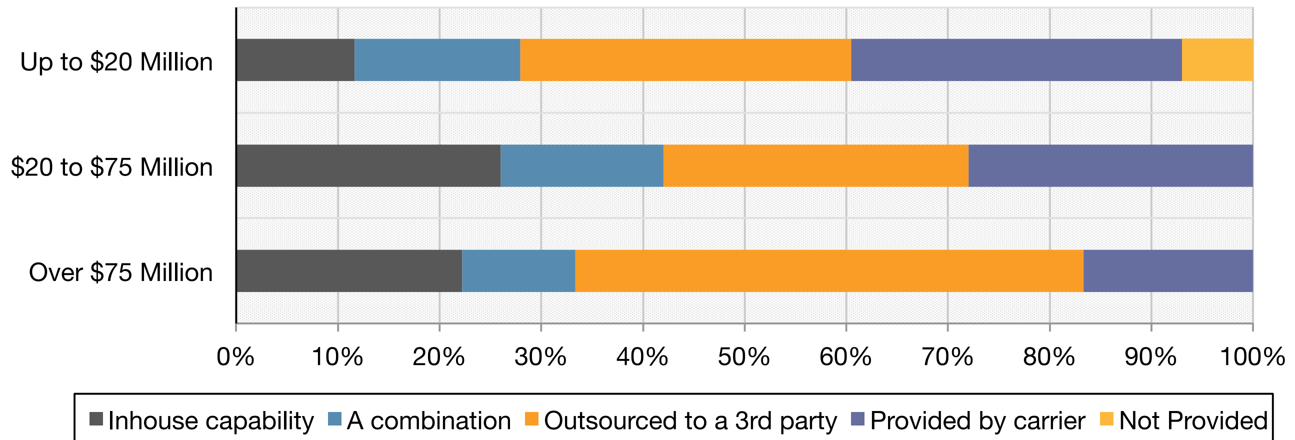


DELIVERY OF ONLINE PLATFORM (BROKER PORTAL) SERVICES BY SIZE OF ADMINISTRATOR



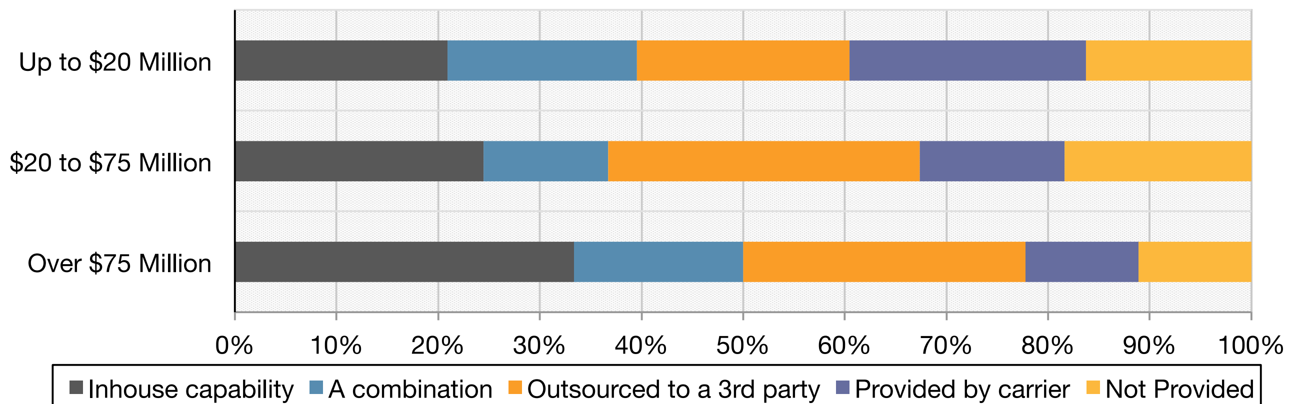
When delivering claims administration services, the larger firms tend to outsource the service to a third party. For mid-sized and small companies, this service tends to be provided by a carrier or outsourced to a third-party provider.

DELIVERY OF CLAIMS ADMINISTRATION SERVICES BY SIZE OF ADMINISTRATOR



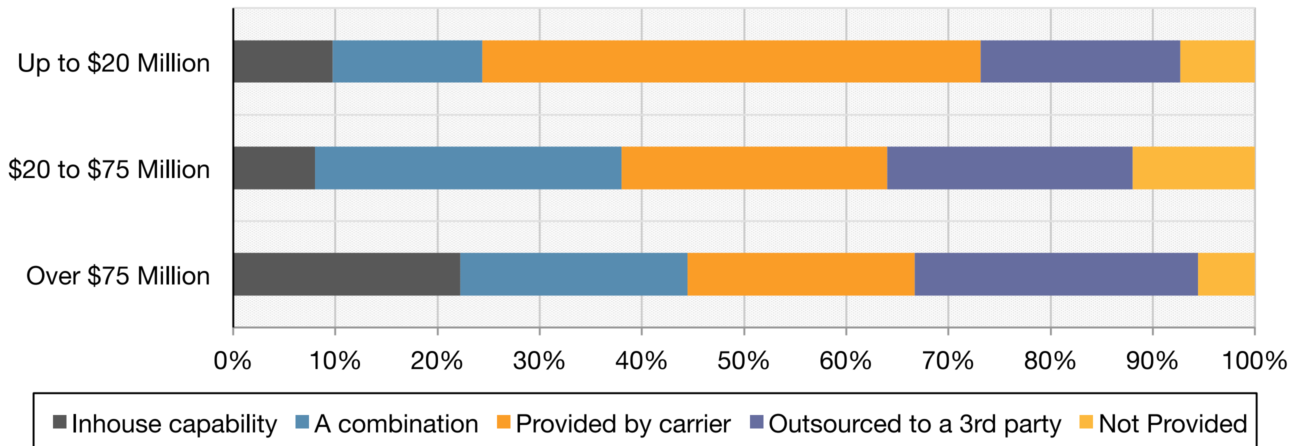
Big firms tend to provide safety and loss prevention in-house, while mid-sized firms tend to outsource through a third-party provider. Smaller administrators tend to use a combination of delivery methods.

DELIVERY OF SAFETY & LOSS PREVENTION SERVICES BY SIZE OF ADMINISTRATOR



In the case of actuarial services, the large firms and mid-sized companies tend to either use a combination of options, get it from a carrier, or outsource to a third-party. Smaller firms continue to deliver it through the carrier.

DELIVERY OF ACTUARIAL SERVICES BY SIZE OF ADMINISTRATOR

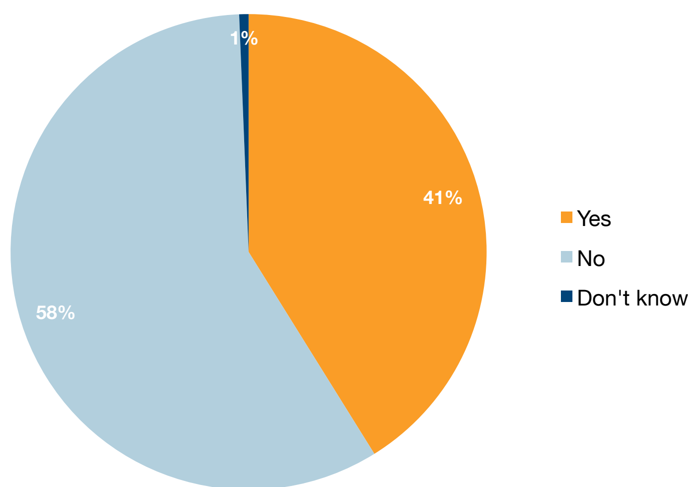


Change in Program Carrier

A good relationship between program administrators and carriers is crucial to creating a successful program. Both groups look for key attributes when selecting a partner to work with. In previous polls, administrators emphasized that in looking for a carrier partner, they examine a carrier's history of supporting programs long-term, its flexibility in underwriting guidelines, its claims management reputation, its underwriting appetite for the program, and many other factors. Conflict arises when these expectations are unmet.

Forty-one percent of the administrators polled reported changing their program carrier in the past three years. This is a significant drop from the 52 percent recorded in 2016.

HAVE YOU CHANGED YOUR PROGRAM CARRIER IN THE PAST THREE YEARS?



Yes
No
Don't know

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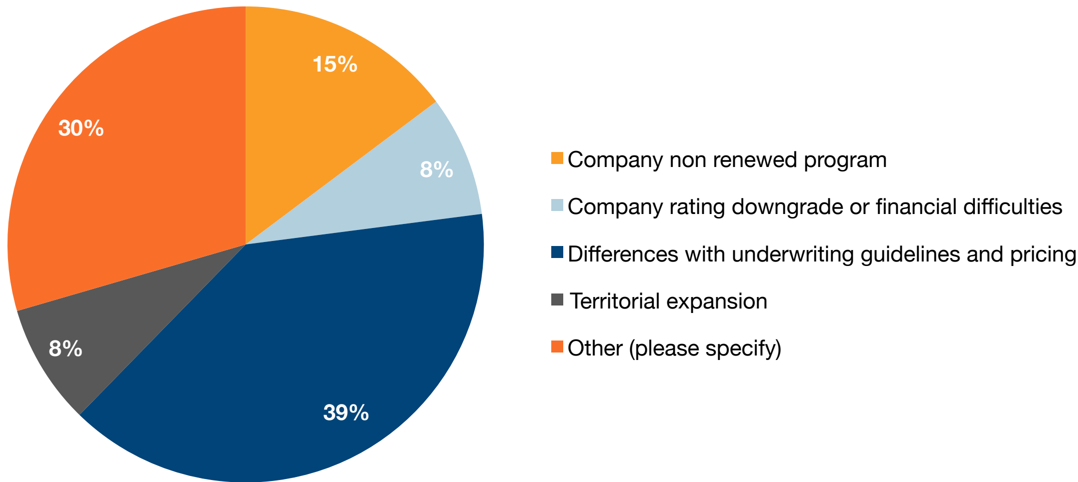
Among those who reported changing their program carriers, the top reason cited was differences with underwriting guidelines and pricing. This is consistent with the findings of the previous survey.

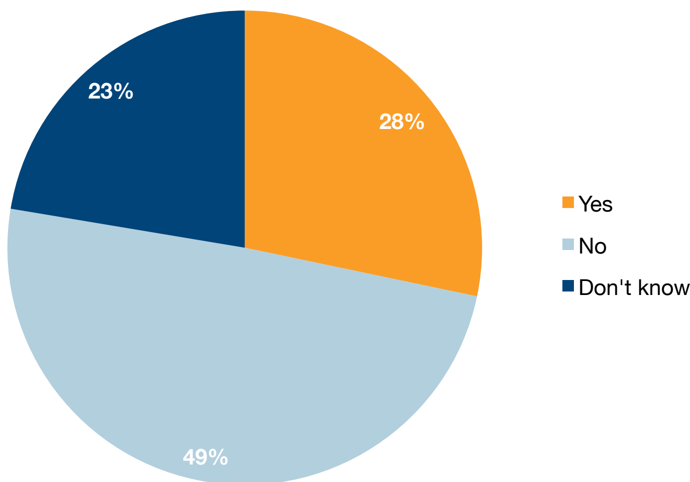
What drives administrators to change their program carriers? “An incompetent carrier partner,” said one administrator surveyed. Another respondent said there are “Carrier partners who are slow to respond to necessary changes. There are also overly cumbersome compliance/carrier startup procedures.”

REASON FOR CHANGING PROGRAM CARRIERS IN THE PAST THREE YEARS



Twenty-eight percent of the respondents reported having plans of changing program carriers within the next 12 months in 2018 – marginally higher than the 26 percent reported in 2016. Half (49%) do not plan to change their carriers – a significant decline from 58 percent in the previous poll. The remaining 23 percent of the respondents have no view on the matter. This is materially higher than the 16 percent recorded in 2016.

PLAN TO CHANGE PROGRAM CARRIERS SOMETIME IN THE NEXT 12 MONTHS



Yes
No
Don't know

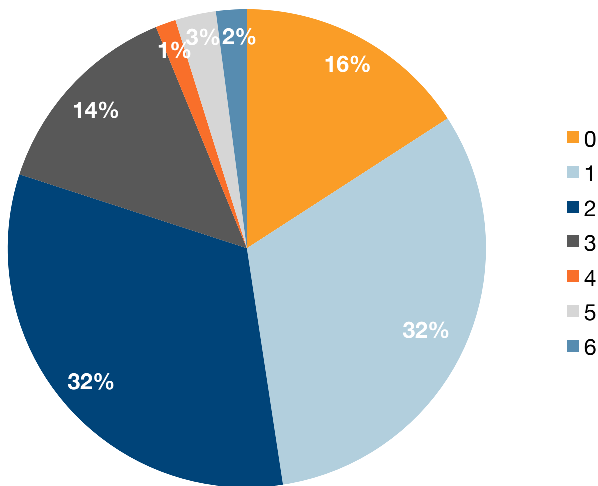
Plan to Introduce New Programs

The majority of administrators surveyed plan to introduce new programs in the next 24 months. Sixty-four percent of the administrators polled plan to introduce one to two programs, 15 percent foresee introducing three to four new programs, while the remaining five percent plan to introduce five to six new programs within the next two years.

Only 16 percent of the respondents do not plan to introduce new programs in the next 24 months.

Many survey respondents see opportunity in introducing new programs related to emerging risks. “Some of the newer risks that require specialized expertise seem suited for program business. Cannabis continues to evolve in both general liability and commercial auto segments, however product liability remains a concern. Autonomous vehicles testing continues to grow and broaden in commercial auto and those program administrators with current programs involving autonomous vehicles testing should have an advantage. Ride sharing continues to grow but so do the exposures,” one carrier said. Sharing this view is an administrator who commented that there is “significant opportunity for growth in too many areas to list. But the market is starting to tighten, which will bring many more opportunities to the program space.”

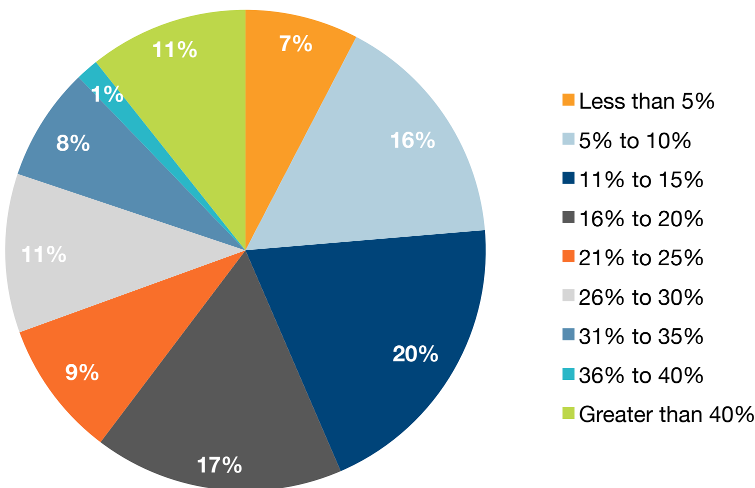
NEW PROGRAMS TO BE INTRODUCED IN THE NEXT 24 MONTHS



Program Administrator Profit Margin

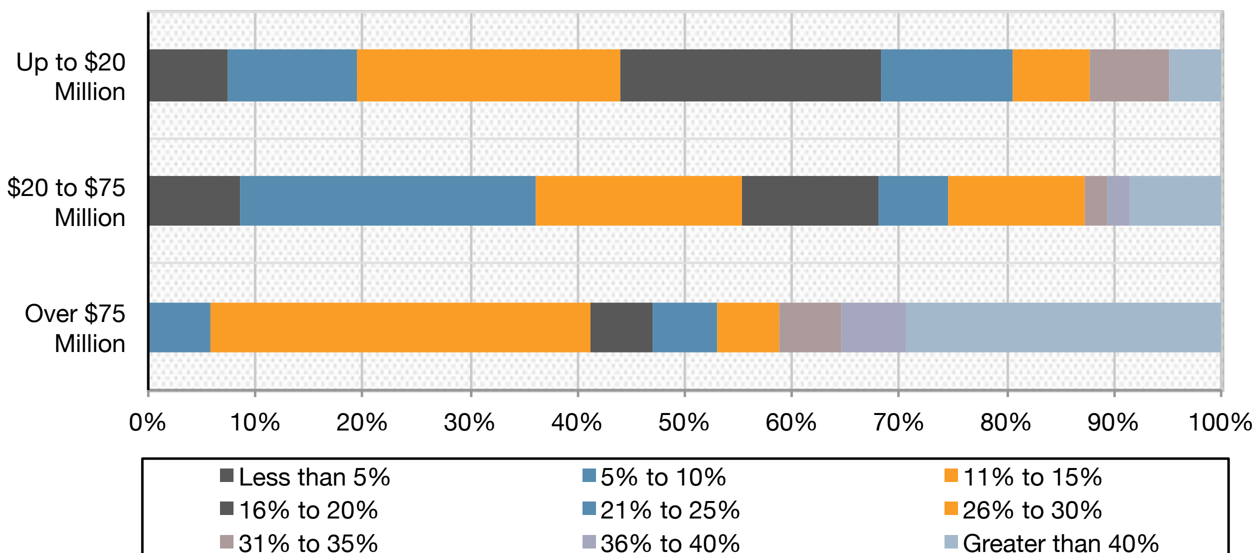
Asked about their average program administration profit margin over the past three years, seven percent said it was less than five percent, 16 percent said five to 10 percent, 20 percent said 11 to 15 percent, 17 percent said 16 to 20 percent, and nine percent said 21 to 25 percent. Eleven percent of the respondents report a profit margin of 26 to 30 percent, eight percent said 31 to 35 percent, one percent said 36 to 40 percent, and 11 percent said more than 40 percent.

PROGRAM ADMINISTRATION PROFIT MARGIN



The larger administrators or those with revenue greater than $75 million registered the highest profit margin among the three revenue groups.

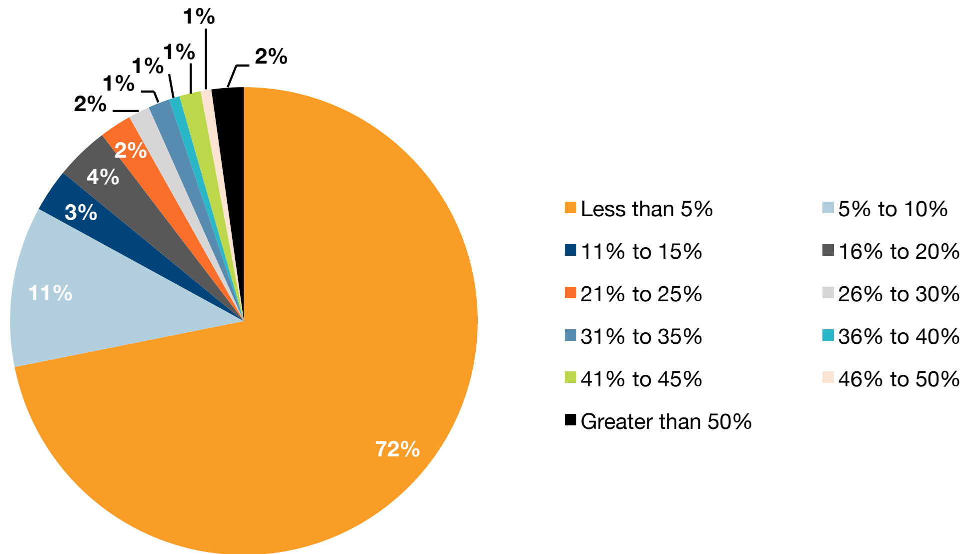
PROGRAM ADMINISTRATOR PROFIT MARGIN BY SIZE OF ADMINISTRATOR



Contingent Income

Seventy-two percent of those polled reported that contingent income as a percentage of their net income is less than five percent, while 11 percent said contingent income represent five to 10 percent of their net income. For the remaining 17 percent of administrator respondents, contingent income represents more than 11 percent of their net income.

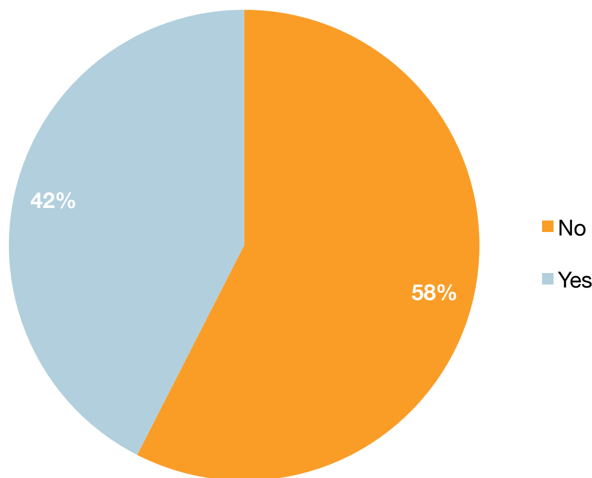
PERCENTAGE OF NET INCOME THAT IS CONTINGENT INCOME



Use of a Lloyd's Syndicate for Program Business

When asked if they use a Lloyd's syndicate for any of their program business, 58 percent said no, while 42 percent said yes.

DO YOU USE A LLOYD'S SYNDICATE FOR ANY OF YOUR PROGRAM BUSINESS?



INSURERS

Demographics

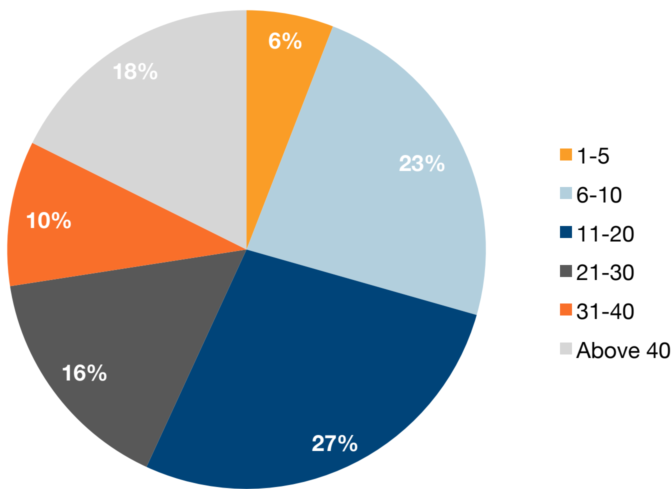
To give a carrier perspective, insurer members of the TMPAA were invited to participate in the survey. Sixty-one carriers participated in the survey, a significant increase from 46 in the 2017 poll, 52 carrier respondents in 2014, 45 respondents in 2013, 43 participants for 2012, and 34 carrier respondents in 2011.

Program Information

All respondents identified themselves as insurance carriers active in the program space. According to TMPAA, an insurance carrier delegates 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.

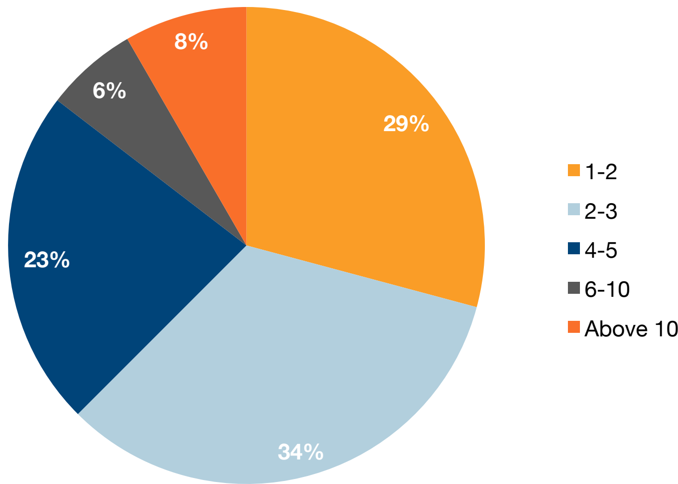
Twenty-seven percent of the carriers surveyed insure 11 to 20 distinct programs. Twenty-three percent of the respondents insure six to 10 distinct programs, 18 percent insure over 40 distinct programs, 16 percent insure 21 to 30 distinct programs, 10 percent insure 31 to 40 distinct programs, while six percent insure one to five distinct programs. The percentage of carriers insuring more than 40 distinct programs rose significantly from five percent in the previous survey.

NUMBER OF DISTINCT PROGRAMS INSURED



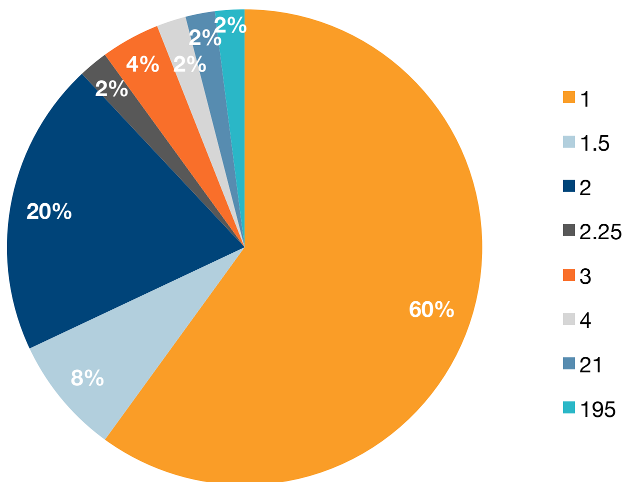
Thirty-four percent of carriers polled said their program underwriters manage an average of two to three programs, 29 percent said one to two, and 23 percent said four to five programs. Eight percent of the carrier respondents said the average number of programs that their underwriters manage is more than 10, while the remaining six percent of the respondents said their program underwriters manage an average of six to 10 programs.

AVERAGE NUMBER OF PROGRAMS PER PROGRAM UNDERWRITER



Asked about the average number of programs offered on their company's paper per program administrator, 60 percent of the carrier respondents said one, 20 percent said two, eight percent said 1.5, four percent said three, and two percent each said 2.25, 4, 21, and 195.

AVERAGE NUMBER OF PROGRAMS PER PROGRAM ADMINISTRATOR



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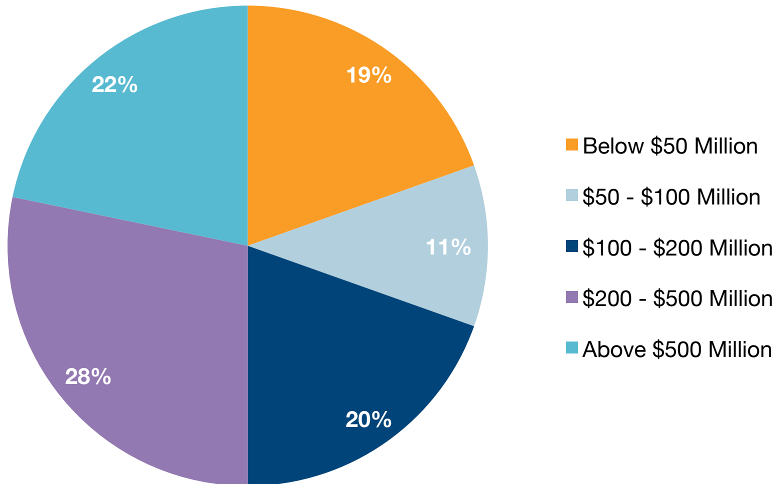
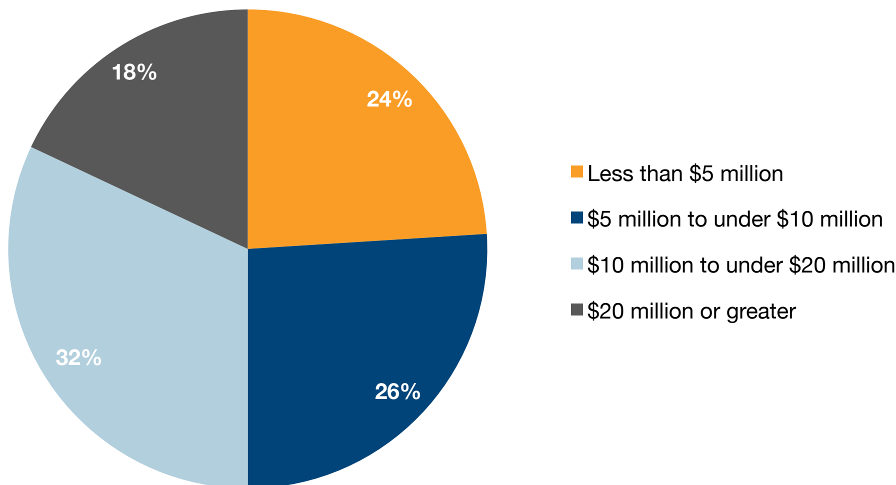
Twenty-eight percent of the carriers polled reported having total gross premiums of $200 million and $500 million, 22 percent said more than $500 million, 20 percent said $100 million to $200 million, 19 percent said below $50 million, while the remaining 11 percent reported total gross premiums of $50 million to $100 million.

TOTAL GROSS PREMIUMS



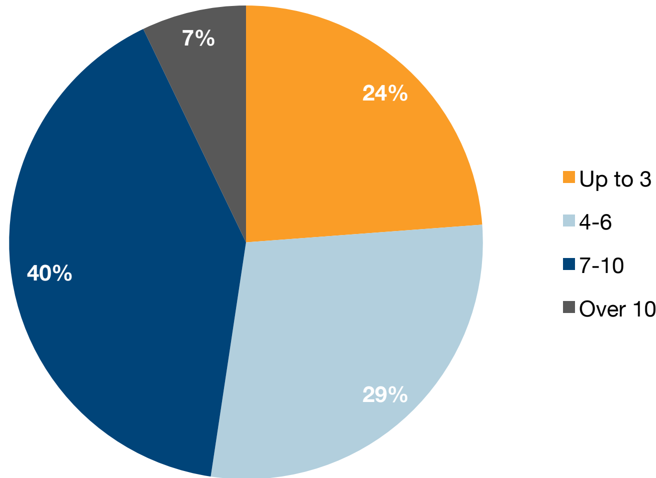
Thirty-two percent of the carriers surveyed estimated their average premium per program at $10 million to under $20 million, while 26 percent pegged it at $5 million to under $10 million. Twenty-four percent estimate their average premium per program at less than $5 million, while the remaining 18 percent pegged it at more than $20 million.

AVERAGE PREMIUM PER PROGRAM



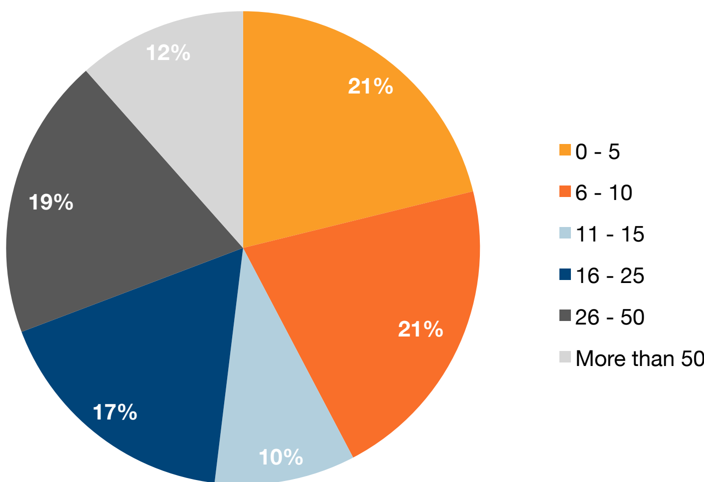
Forty percent of carriers polled say the average tenure of their programs is seven to 10 years, while 29 percent say four to six years. For 24 percent of carriers, the average tenure of programs is up to 3 years; while for the remaining seven percent it is over 10 years.

AVERAGE TENURE OF PROGRAMS



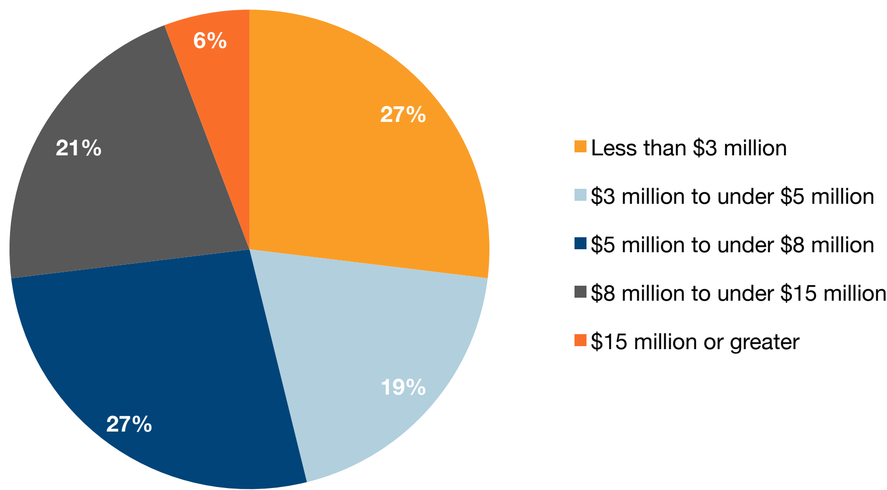
Twenty-one percent of the carriers surveyed have up to five employees dedicated to program business, while another 21 percent have six to 10 employees working on program business. Nineteen percent have 26 to 50 employees dedicated to program business, 17 percent have 16 to 25 employees in the program space, 12 percent have more than 50 employees in program business, while the remaining 10 percent report having 11 to 15 employees dedicated to program business.

NUMBER OF EMPLOYEES DEDICATED TO PROGRAM BUSINESS



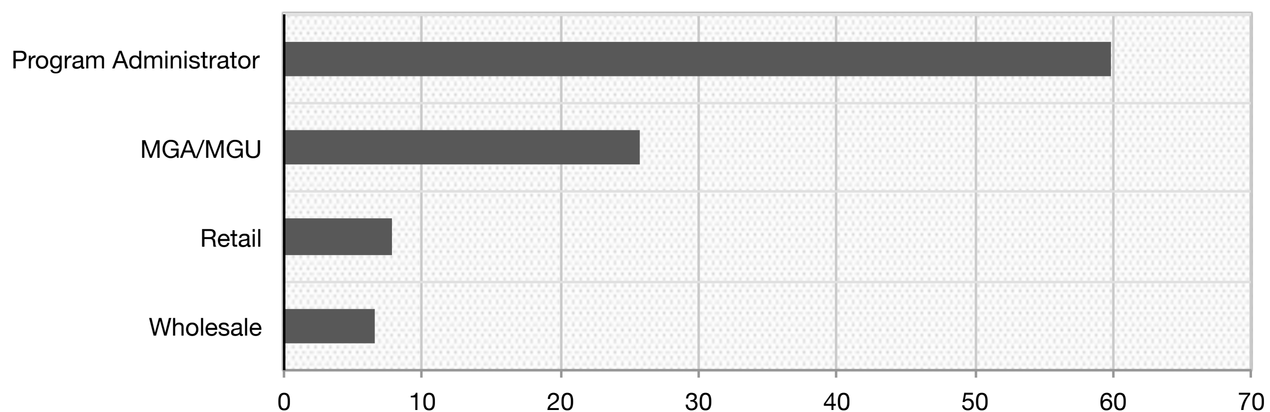
Asked to provide their minimum requirement for existing premium volume to consider a program, 27 percent of the respondents said less than $3 million, while another 27 percent said $5 million to under $8 million. For 21 percent of the carrier respondents, the minimum requirement is $8 million to under $15 million, 19 percent said $3 million to under $5 million, and six percent said $15 million or more.

MINIMUM REQUIREMENT FOR EXISTING PREMIUM VOLUME TO CONSIDER A PROGRAM



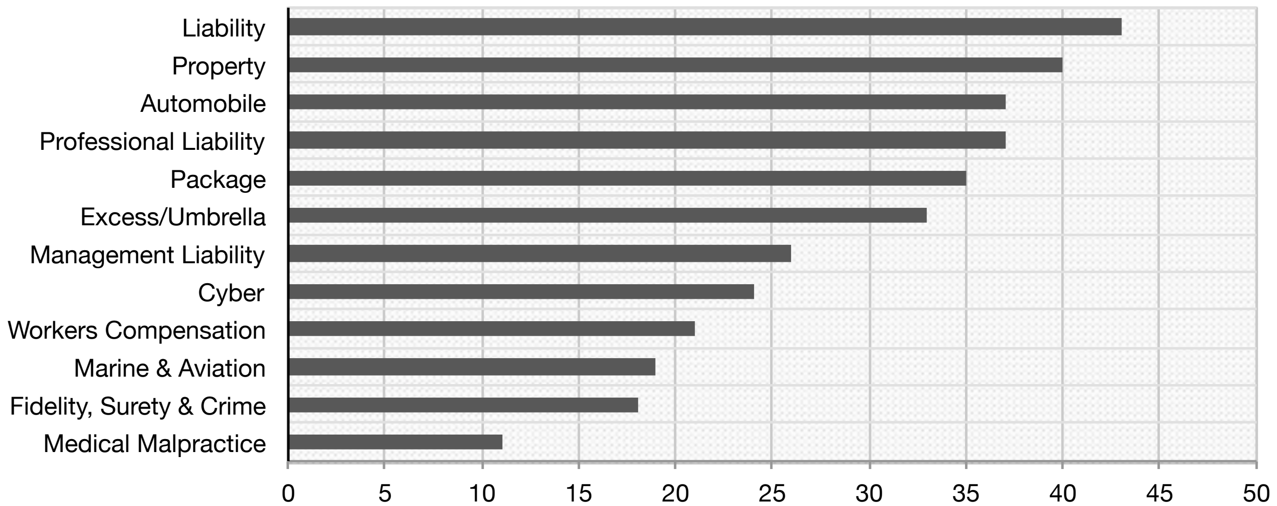
In terms of percentage of total number of programs by type of brokers/agencies, 60 percent come from program administrators, 26 percent come from MGAs/MGUs, eight percent come from retail brokers/agencies, while six percent come from wholesale brokers/agencies.

PERCENTAGE OF TOTAL NUMBER OF PROGRAMS BY TYPE OF BROKERS/AGENCIES



Liability, property, automobile, professional liability, and package were the top five responses when carriers were asked about the lines of business they write for program administrators.

LINES OF BUSINESS FOR PROGRAM ADMINISTRATORS



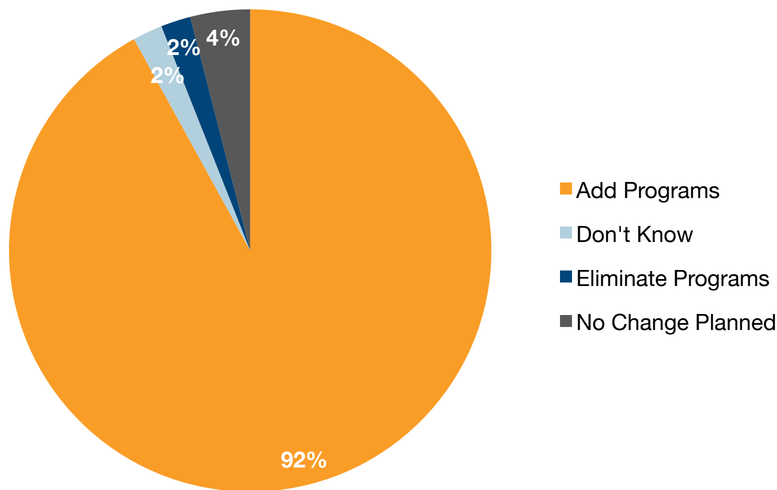
Program Strategy

Consistent with the previous survey, the majority of carriers (92 percent) polled plan to expand within the next three years. Their program strategy also includes plans to add programs over that period.

A comment from one of the carrier respondents highlighted the challenges related to the formation of new programs.

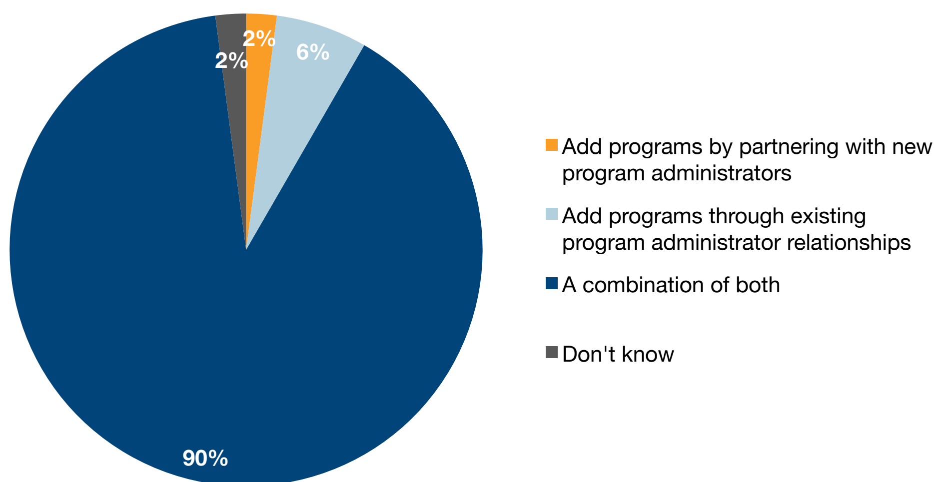
“One of the major weaknesses of program business is the expectation surrounding the acquisition or formation of a new program. The life cycle of the onboarding of a new program may vary significantly depending on the targeted class, product offering and the availability of historical loss data. Another challenge is the ability of insurance carriers and program partners to establish and maintain alignment on the strategic goals and financial performance of a program.”

PROGRAM STRATEGY FOR THE NEXT THREE YEARS



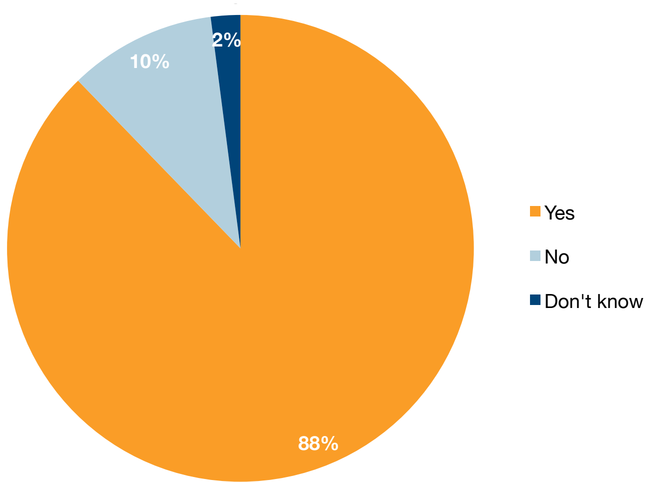
Of those who plan to expand, 90 percent said their strategy is to partner with new and existing administrators. Six percent will partner with existing administrators, two percent will partner with new administrators, while two percent have no view on what strategy to use.

STRATEGY FOR ADDING PROGRAMS OVER THE NEXT THREE YEARS



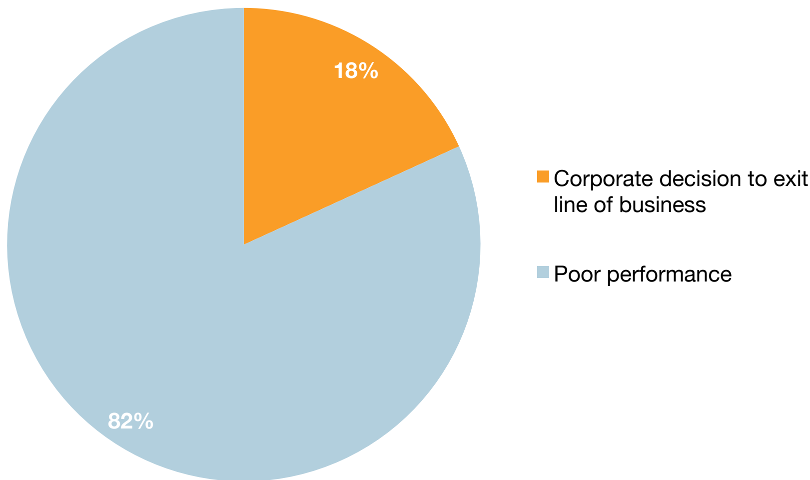
Eighty-eight percent of the respondents reported dropping programs in the past two years.

HAVE YOU DROPPED PROGRAMS IN THE PREVIOUS TWO YEARS?



Of those who dropped programs, the majority attributed their action to poor performance. A smaller portion of the respondents cited corporate decision to exit line of business as the reason behind their decision to drop programs.

REASONS FOR DROPPING PROGRAMS IN THE PAST TWO YEARS



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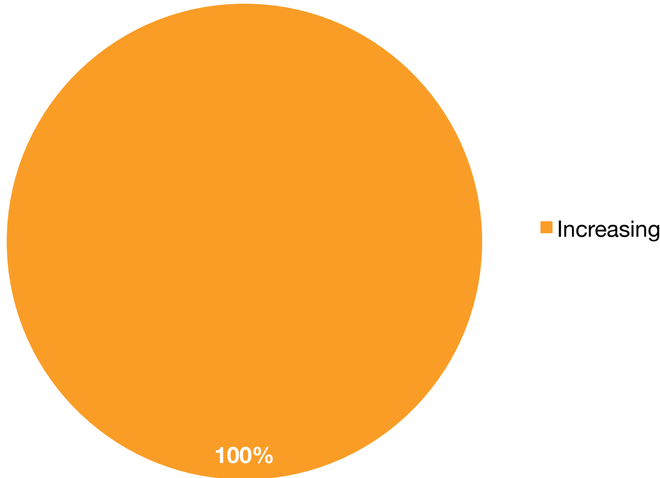
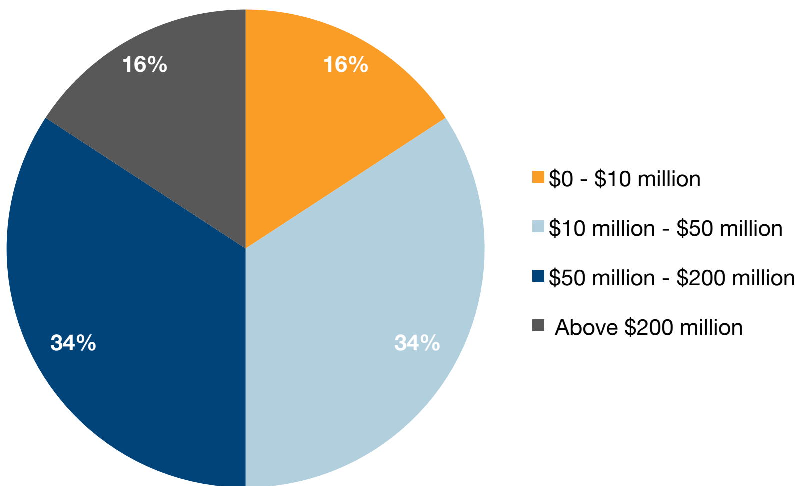
All carriers polled anticipate increasing the amount of premium written in the next three years.

DO YOU ANTICIPATE INCREASING OR DECREASING PREMIUM WRITTEN IN THE NEXT THREE YEARS?



Asked about the rough amount by which they anticipate increasing or decreasing their written premiums in the next three years, 34 percent of the carriers said $10 million to $50 million, another 34 percent said $50 million to $200 million, 16 percent said below $10 million, and another 16 percent said above $200 million.

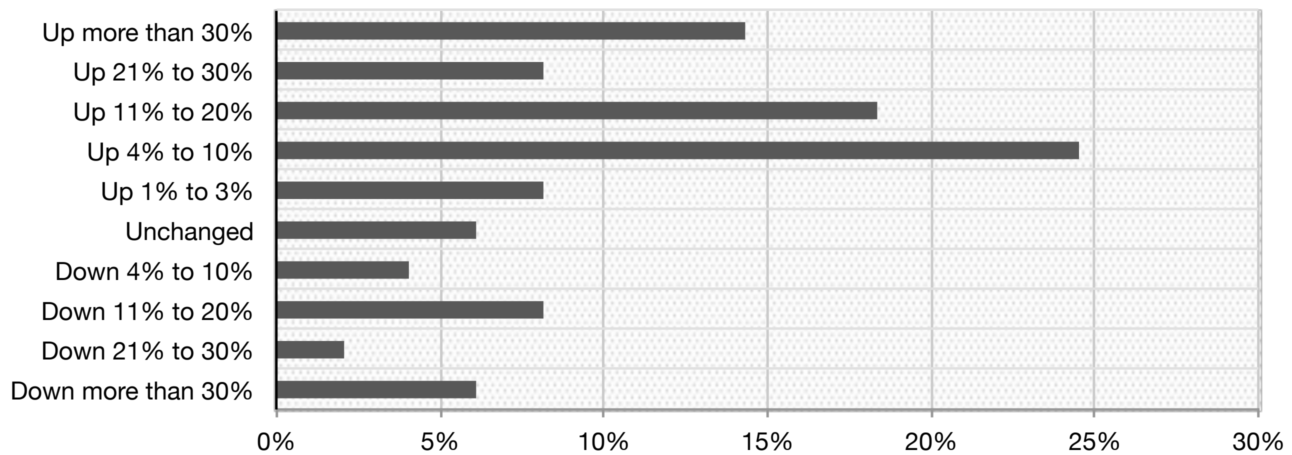
WHAT IS THE ROUGH AMOUNT BY WHICH YOU ANTICIPATE INCREASING OR DECREASING YOUR WRITTEN PREMIUMS IN THE NEXT THREE YEARS?



Seventy-three percent of the carriers surveyed reported increases in premiums administered in 2018, while 20 percent recorded declines. The remaining six percent said premiums administered were unchanged.

Of those who reported increases, 25 percent said premiums administered rose by four to 10 percent, 18 percent saw increases of 11 to 20 percent, and 14 percent reported increases of more than 30 percent. Eight percent each said premiums administered went up by one to three percent and 21 to 30 percent. On the other hand, eight percent of those who reported premium declines said the drop was 11 to 20 percent. Six percent said premiums were down by more than 30 percent, four percent saw declines of four to 10 percent, and two percent reported that premiums went down by 21 to 30 percent.

PERCENT CHANGE IN PREMIUMS ADMINISTERED (GROSS WRITTEN) IN 2018



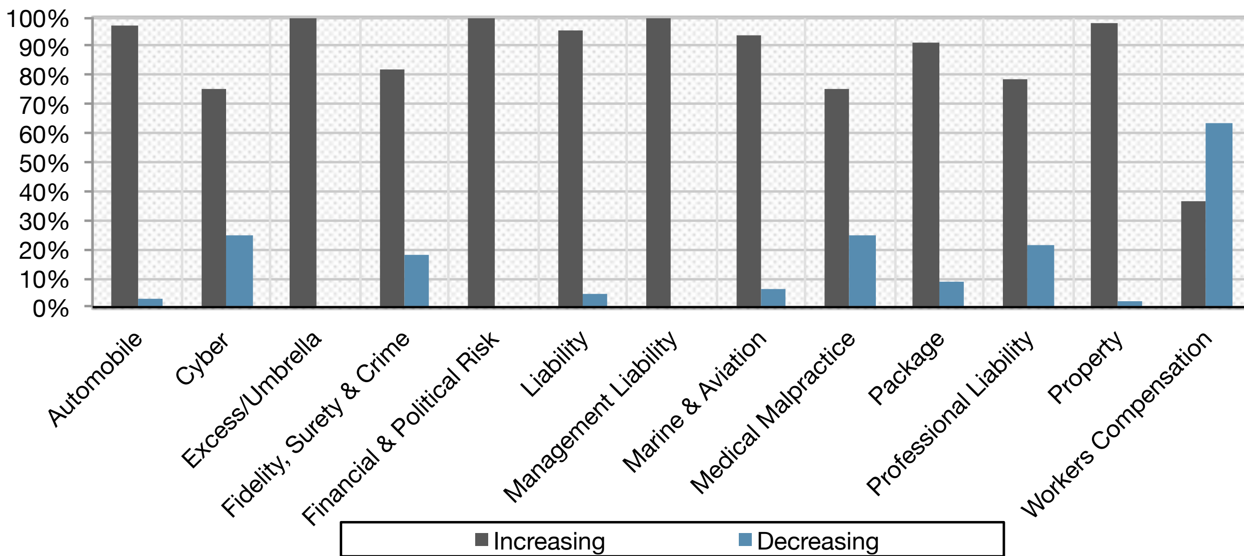
As with their administrator peers, carriers reported rate increases across all lines of business except workers compensation. The LOBs with the highest share of respondents reporting increasing premiums were excess/umbrella (100%), financial and political risk (100%), management liability (100%), property (98%), and automobile (97%).

Consistent with available market reports, workers compensation is the only line of business that showed a greater share of decreases vs. increases (37% vs 63%) among 13 LOBs tracked in 2018.

> *"Workers compensation has been extremely profitable but faces headwinds as rates continue to drop," commented one carrier respondent.*

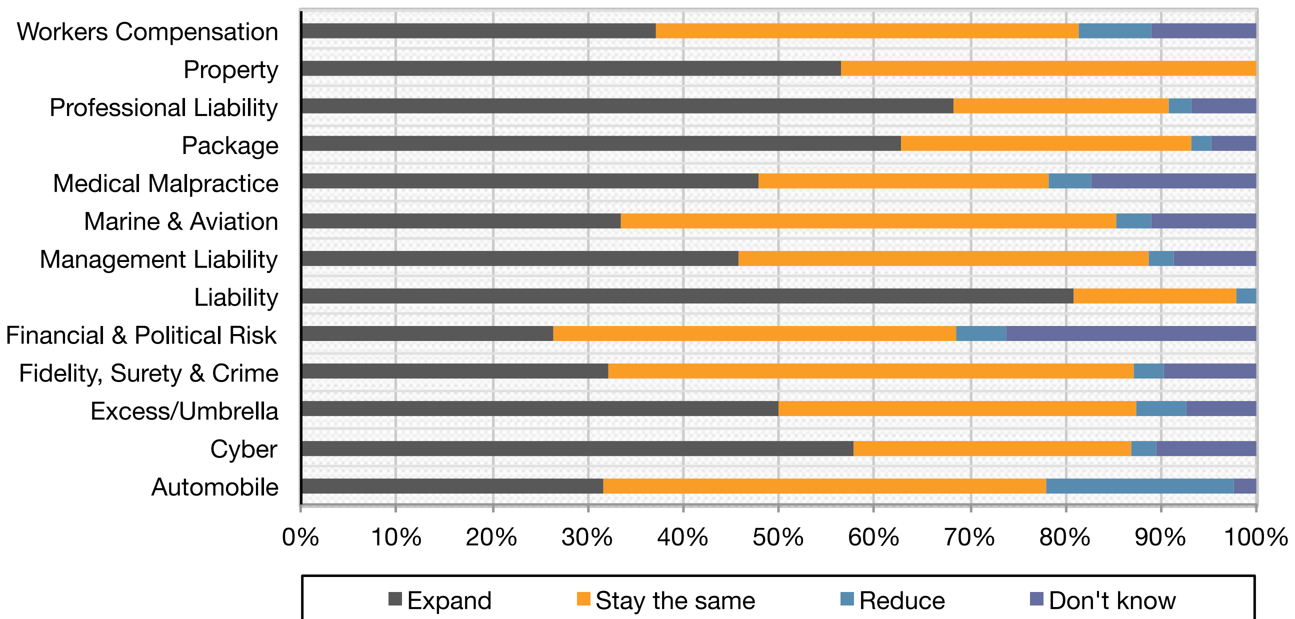
On the hard market, a carrier polled said that "As the market hardens, the quality of the markets used will become more important."

CARRIERS: SHARE OF RATE INCREASES/DECREASES BY LINE OF BUSINESS (2018)



Carriers were asked about their plans for 13 lines of business in the next 12 months. Responses show that carriers plan to expand in most of the LOBs. This is particularly evident for workers compensation, professional liability, property, excess/umbrella, and liability. For cyber, marine and aviation, package, medical malpractice, and fidelity, surety and crime, carriers are roughly divided between expanding the LOB or allowing to stay the same. Interestingly, a very small percentage of respondents are planning to reduce any of the LOBs they offer, with automobile most subject to reduction.

PLANS OVER THE NEXT 12 MONTHS FOR 13 LINES OF BUSINESS



Target Markets Program Administrators Association

Advisen Transforming • Insurance

Mergers and acquisition activity has been a closely watched topic in program business over the past few years. Respondents in the series of TMPAA Program Business surveys had consistently identified the continued consolidation as one of the challenges facing program business. “The aggressive activity to buy and sponsor MGAs, MGUs, and program administrators is blurring the lines between distributors, insurance carriers and reinsurers. The perspective of the MGA/MGU to focus on growth through underwriting discipline will be challenged in a more direct way,” a carrier respondent said.

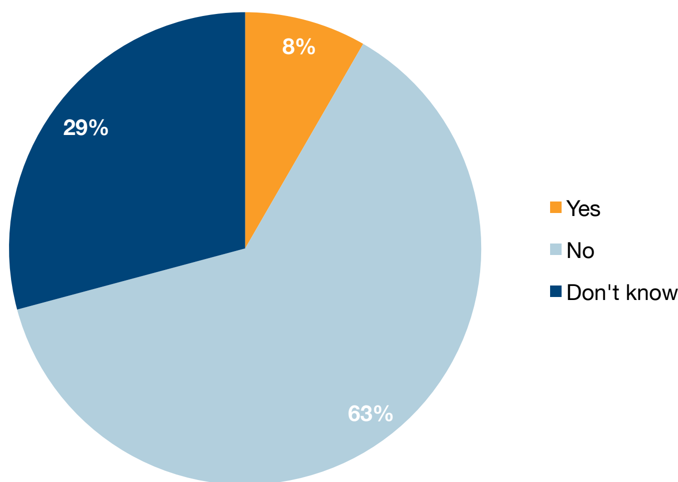
Related to the threats brought by M&A is the continued attention that the industry is receiving from private equity firms and other players. One carried polled explained that the “Continued increase in alternative capital and non-traditional insurance companies will strain the broader insurance market as these entities try to access business directly rather than through traditional reinsurance, insurance, PA, agent/wholesale channels.”

For the 2019 poll, TMPAA and Advisen asked carriers if they plan to grow their program business by acquiring administrators. Only eight percent of the carrier respondents said yes. This is significantly lower than the 21 percent recorded in the previous poll. Sixty-three percent said they do not have plans to acquire administrators, while 29 percent have no view on the matter.

Some comments offer insight into the observation that carriers are becoming less acquisitive. One carrier respondent pointed to the “high acquisition cost” as a challenge.

Carriers will continue to improve the efficiency by which they acquire business; however, they will not be able to bring the UW expertise housed at the PA level without significant cost. As a result, carriers will continue to rely on the PAs for their ability to produce niche business the carrier cannot access due to limited knowledge,” said another carried polled.

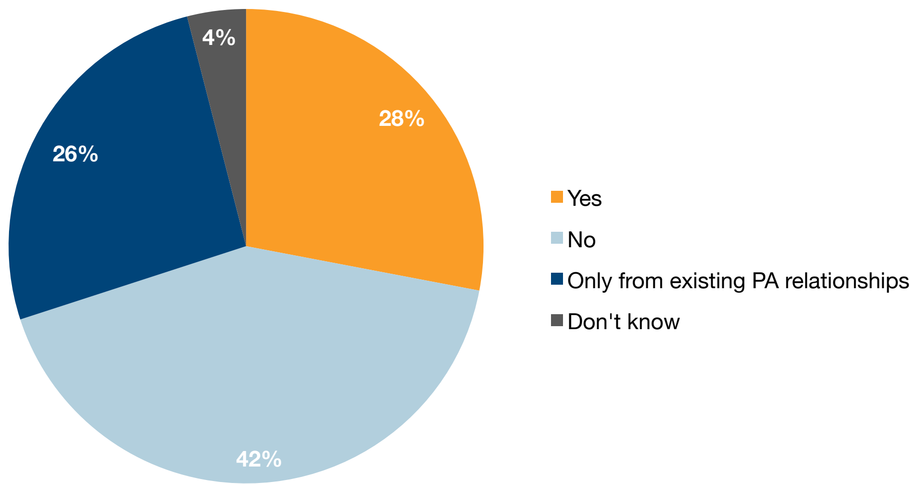
PLAN TO GROW PROGRAM BUSINESS BY ACQUIRING ADMINISTRATORS



Yes
No
Don't know

Of the carriers polled, 28 percent said they will only consider roll over books of program business, while 42 percent said they will consider new programs. Twenty-six percent said they will consider doing new business only with existing PA relationships. The remaining four percent have no view on the matter.

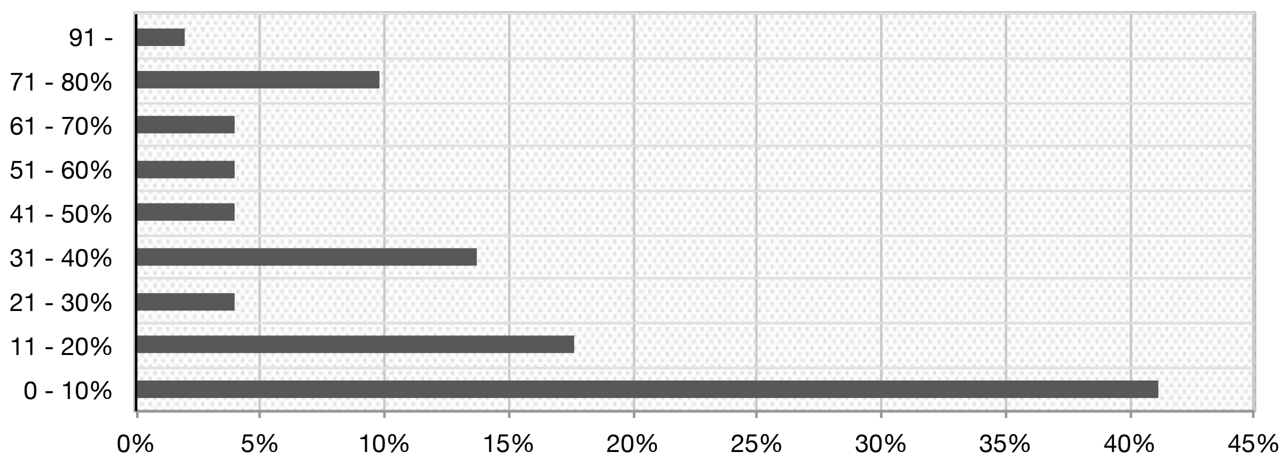
WILL YOUR COMPANY ONLY CONSIDER ROLL OVER BOOKS OF PROGRAM BUSINESS VS. START UP PROGRAMS?



CAT Exposure

Asked about the percentage of their property programs that are CAT exposed, 41 percent of the carriers surveyed said zero to 10 percent, 17 percent said 11 to 20 percent, 14 percent said 31 to 40 percent, and nine percent said 71 to 80 percent. Four percent each said 21 to 30 percent, 41 to 50 percent, 51 to 60 percent, and 61 to 70 percent. The remaining two percent said 91 to 100 percent.

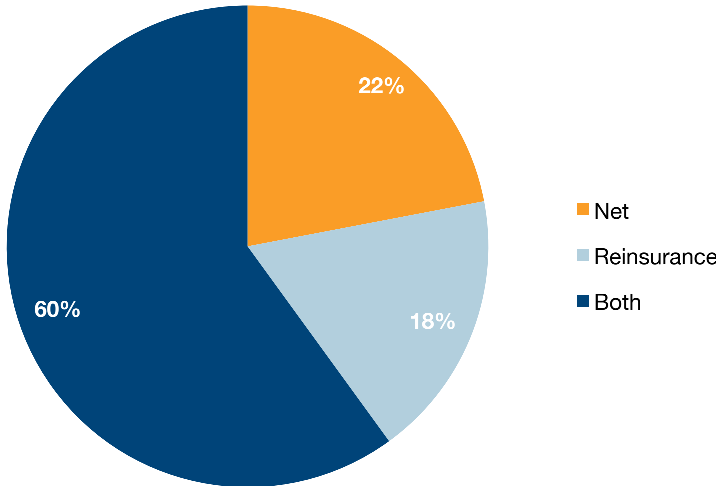
WHAT PERCENTAGE OF YOUR PROPERTY PROGRAMS ARE CAT EXPOSED?



Tendency to Take Programs Net or Use Reinsurance

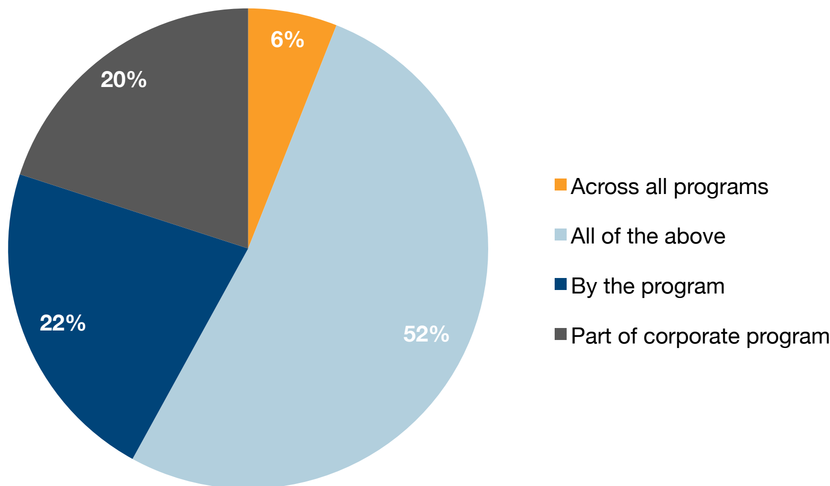
Asked whether they have the tendency to take programs net or use reinsurance, 22 percent said they tend to take programs net, while 18 percent said they use reinsurance. The remaining 60 percent of the respondents said they use both.

DO YOU TEND TO TAKE PROGRAMS NET OR USE REINSURANCE?



Of those who reported using reinsurance, 52 percent responded "all of the above" when asked how the reinsurance they use is structured. This means they are structured either across all programs or as part of a corporate program. Twenty-two percent said it is structured by the program, while 20 percent said it is structured as part of a corporate program. The remaining six percent responded across all programs.

IF YOU USE REINSURANCE, HOW IS IT STRUCTURED?



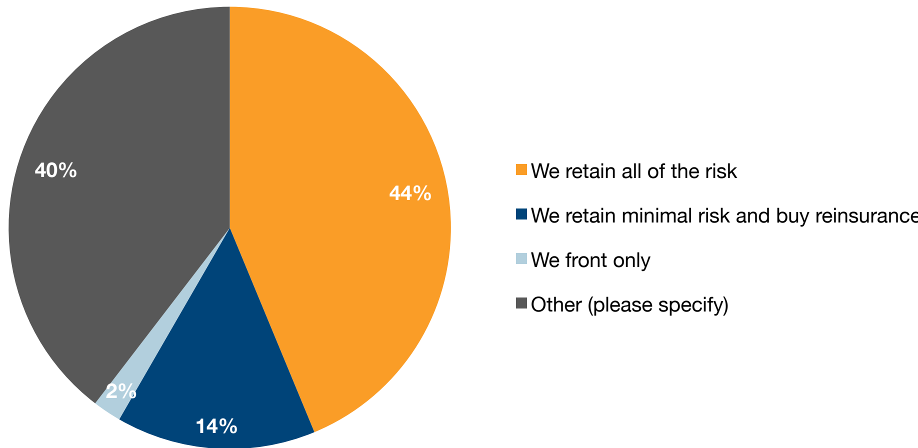
Risk Appetite

The carriers were asked how their companies are structured in terms of risk appetite. According to 44 percent of respondents, they retain all the risk. This number is significantly lower than the 67 percent posted in 2016. The number of carriers who reported retaining minimal risk and buying reinsurance dropped from 27 percent in 2016 to 14 percent in 2018. Those who said that they front only also declined from six percent to two percent.

The remaining 40 percent of the respondents said “Other”. For a number of respondents, this means a combination of the three options. For some, the structure depends on the program. “We take all of the risk (outside of the portion that is placed in our Corporate Treaties) on those programs where we have a high degree of internal expertise. Other deals we may front or purchase QuotaShare Reinsurance,” one administrator said. Another respondent shared this view, saying “We vary in our risk appetite by program and line of business. Some programs we retain all risk others may have reinsurance.”

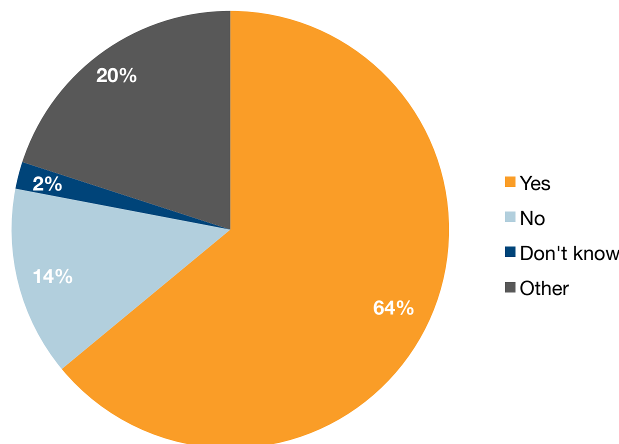
Commenting on risk appetite, another respondent said that they “retain a meaningful net and buy reinsurance above.”

HOW IS YOUR COMPANY STRUCTURED IN TERMS OF RISK APPETITE?



Sixty-four percent of carriers polled allow program administrators to administer claims, while 14 percent do not. Twenty percent responded “Other,” while two percent had no view.

DO YOU ALLOW YOUR PROGRAM ADMINISTRATORS TO ADMINISTER CLAIMS?



Yes
No
Don't know
Other

COMPARATIVE ANALYSIS OF ADMINISTRATORS' AND INSURERS' VIEWS ON KEY TOPICS

Involvement with InsurTech

In the past decade, the insurance industry has witnessed the rise of insurance technologies or insurtech. In the survey questionnaire, insurtech was defined as something that covers technology advances in everything from how insurance products are delivered, how claims are managed, how regulation is managed, and even insurance products themselves. Insurtech start-ups have taken the industry by storm, affecting processes like comparing policies or purchasing coverage.

TMPAA and Advisen started tracking administrators' and carriers' views and practices related to insurance technology in the 2017 poll. The survey found then that carriers were more involved with insurtech compared to their PA counterparts.

In 2019, we asked the two groups again about their level of involvement with insurtech and found that carriers and administrators had the same level of involvement in 2018. Data below shows that an equal number of administrators (39 percent) and carriers (39 percent) said they are involved heavily in insurtech. Forty-one percent of administrators reported being somewhat involved in insurtech compared to 45 percent of carriers. Seventeen percent of administrators said that they are not at all involved in insurtech, while 16 percent of carriers reported not being involved.

Interestingly, the percentage of administrators involved with insurance technology, in varying levels, increased dramatically from 58 percent in 2016 to 80 percent in 2018.

Thirty-nine percent of the administrators polled report being heavily involved with insurance technology, while 41 percent say they are somewhat involved. Seventeen percent said they are not at all involved, while the remaining three percent have no view.

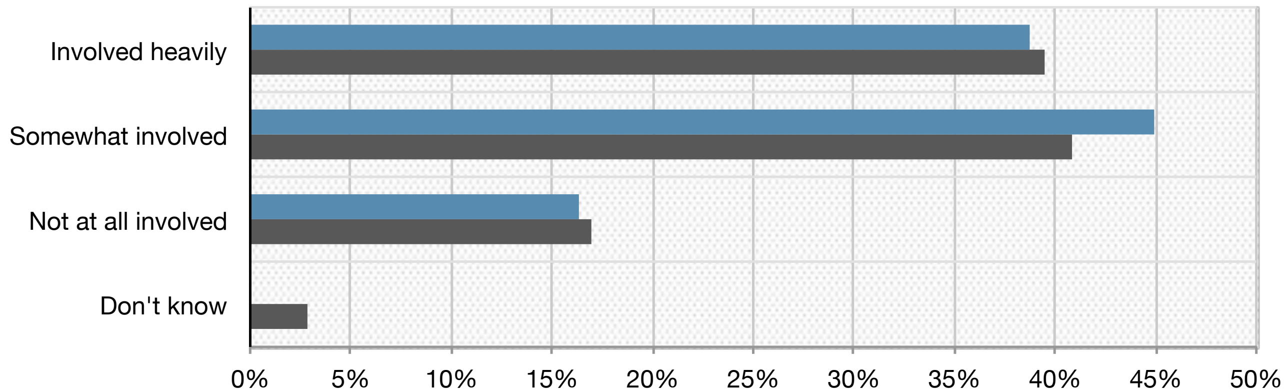
In the case of carriers, 39 percent are involved heavily, while 45 percent are somewhat involved. Sixteen percent said they are not at all involved.

Chris Pesce attributes this change to a combination of insurance technology maturing and the fact that various insurtechs are now more available.

> *"The program administrators are figuring out how to utilize insurtech. It's starting to become part of the daily fabric of a PA's life. It's no longer this outside thought. It's a necessity, which is the track that we all predicted it would take. It's the evolution that we all forecasted."*

One carrier, however, cautioned that “Technology can be applied too broadly. e.g. not everything is a fit for automation. To make an online system work you need very little that falls outside of the quotable appetite and the question set needs to be short. There are suitable candidates for this – very high margin business or huge premium sectors where the actuarial data is detailed. Where smaller sectors are the focus, appetites are broadened and underwriting is reduced resulting in reduced margins all round.”

COMPARATIVE ANALYSIS OF INVOLVEMENT WITH INSURTECH



Survey results show that many administrators and carriers are involved in some form or shape of insurance technology. In the 2019 poll, respondents were also asked about where they are getting the insurtechs that they use. *Are they developing their own technologies? Or are they sourcing it from third party providers or their partners?*

Thirty-nine percent of administrators queried reported that they are in the process of developing their own technology, while 30 percent license from a third party. Seventeen percent said insurance technology is provided by their carrier partners, while 14 percent said they are in the process of beta testing.

In the case of carrier respondents, 36 percent said insurance technology is provided by their business partners, 25 percent license from a third party. Twenty-four percent are developing technology, while 14 percent said they are in the process of beta testing.

One noteworthy finding is that a greater percentage of administrators are developing their own technologies compared to their carrier peers (39 percent vs. 24 percent). On the other hand, a greater percentage of carriers get their insurance technology from their business partners (36 percent vs. 17 percent).

Efforts to develop their own insurance technologies indicate that administrators are keen on investing resources to develop insurtechs in-house.

Commenting on making proper investment in technology and the expense that goes along with the investment, one carrier polled said that “Consultants are a good start but program administrators must invest in programmers, data mining and improve internal systems. Data is king, and data subsets of class, often including the demographics by exposure type whether exposure is TIV, count, payroll, or receipts, is vital.”

TARGET MARKETS
Program Administrators Association
Advisen
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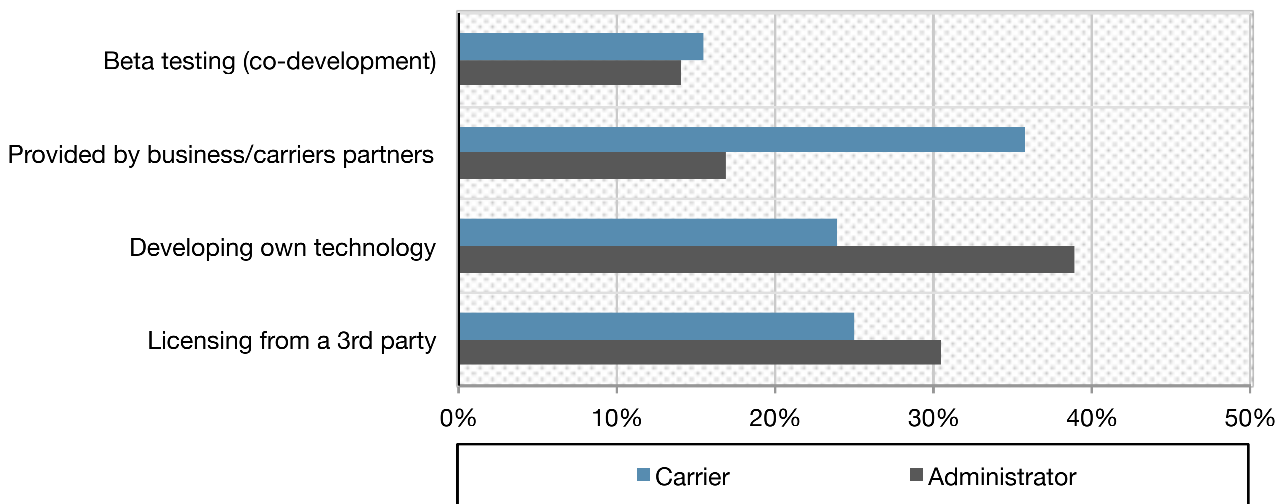
COMPARATIVE ANALYSIS OF SOURCES OF INSURANCE TECHNOLOGY



There is also very little difference when it comes to administrators' and carriers' views on insurance technology being enabling or disruptive. Eighty-five percent of administrators see insurance technology as enabling. This compares to 80 percent of carriers who share the same view.

The majority of administrators polled (85 percent) view insurance technology as more enabling, while six percent see it as disruptive. The remaining nine percent believe that insurance technology have no influence.

Innovation and technology will bring all the pieces of program business into a more streamlined fashion. Lots of moving parts for program business and there is an easy way to bring it all together with technology," said one administrator who sees insurtech as an opportunity.

Another administrator shared this view and noted that the "Continued use of technology to more efficiently capture, aggregate, and analyze customer data, in order to improve product and pricing segmentation in the marketplace [is an opportunity]. Increased use of insurtech to better and more efficiently reach customers."

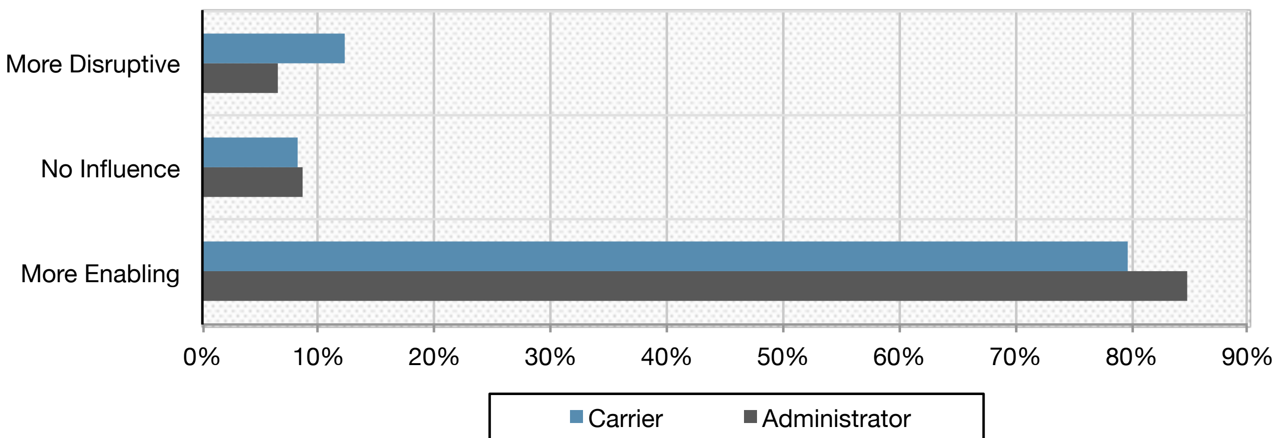
Similarly, the majority of carriers polled (80 percent) view insurance technology as more enabling, while 12 percent see it as disruptive. Only eight percent said insurance technology has no influence. "Insurtech and digital initiatives should present many opportunities," one carrier respondent commented.

Some respondents view insurtech as a threat.

> *"Insurtech will accelerate the threat of disintermediation for the program administrators who do not offer unique or differentiated products and services in the marketplace, offering products of similar quality at a cheaper price due to technological efficiency gains and more direct distribution techniques. This puts more pressure on legitimate program administrators to differentiate the program and product offering in the marketplace, to ensure the value proposition justifies the cost," warned an administrator participant.*

Several administrators also expressed concern that insurtech might replace the traditional PA model. "InsurTech – remains to be seen if tech disrupts or advances the space, could well be a threat to the 'traditional' PA model," one administrator said. Another respondent shared this view, saying "Insurtech advances to eliminate PA."

COMPARATIVE ANALYSIS OF CURRENT INFLUENCE OF INSURANCE TECHNOLOGY



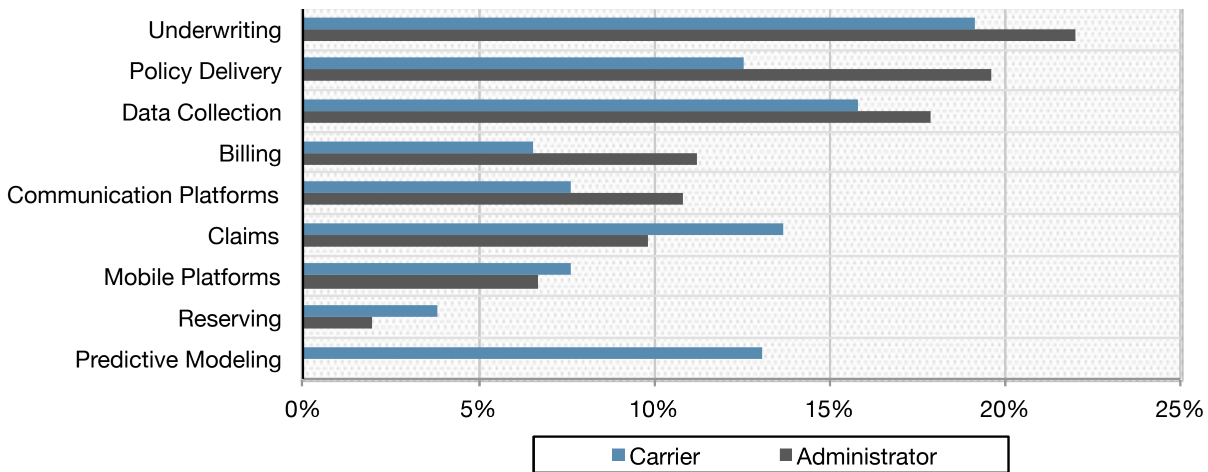
The two groups are also in sync when it comes to the areas of business where they apply insurtech.

Underwriting (22 percent) topped the list of business processes where administrators apply insurance technology. Policy delivery (20 percent) and data collection (18 percent) ranked second and third, respectively.

Underwriting also dominated the list of business processes where carriers apply insurance technology. Data collection, claims, and predictive modeling ranked second, third, and fourth, respectively.

Interestingly, while carriers apply insurance technology in predictive modeling, their administrator counterparts do not. Also, a significantly higher percentage of carriers use insurtech for claims and reserving. On the other hand, a materially higher percentage of administrators use insurtech for policy delivery, billing, and communication platforms.

COMPARATIVE ANALYSIS OF AREAS OF BUSINESS THAT UTILIZE INSURANCE TECHNOLOGY



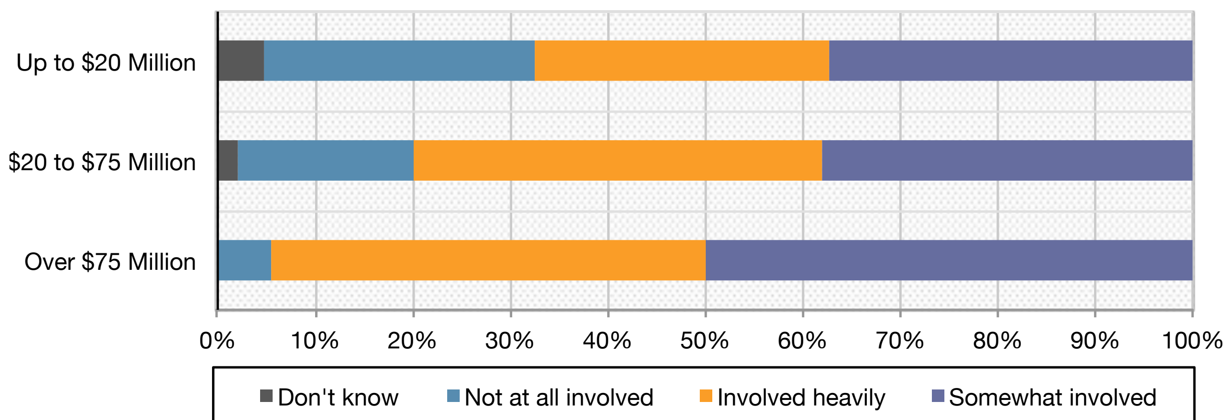
Larger firms or those with revenue of more than $75 million tend to be more involved with insurance technology than their smaller and mid-sized peers.

A number of administrators commented that smaller administrators may not have the resources to invest in insurtech.

The small MGAs will not be able to compete because of the technology investment and technological knowledge that is going to be required," one respondent said.

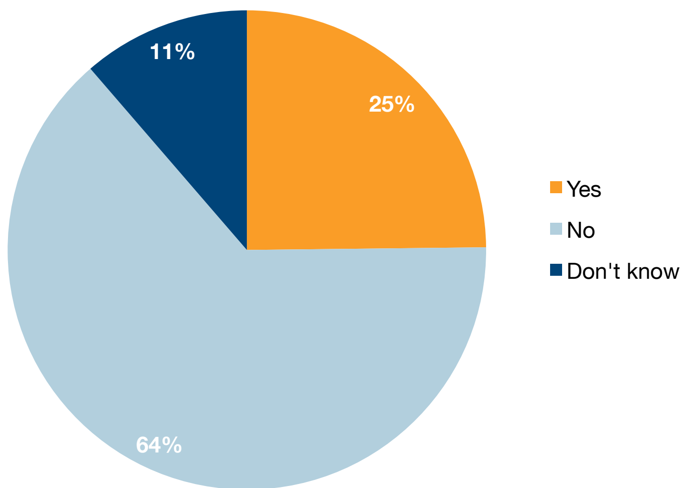
Another administrator said that "As a startup, it has been difficult for our company to invest in technology up to this point."

INVOLVEMENT WITH INSURTECH BY SIZE OF ADMINISTRATOR



A fourth of the poll participants reported that insurance technology is causing them to consider a change in distribution. Sixty-four percent said no, while the remaining 11 percent have no view on the matter. Commenting on threats faced by program business, one administrator polled mentioned that “Insurtech may alter certain traditional insurance distribution channels.”

IS INSURANCE TECHNOLOGY CAUSING YOU TO CONSIDER A CHANGE IN DISTRIBUTION?



Cyber Coverage

The year 2018 witnessed a series of high-profile attacks including the Marriott data breach which involved personal details of 500 million hotel guests and the massive Facebook security breach that affected 50 million users.

The impact of these attacks, as well as significant regulatory changes such as the European Union’s General Data Protection Regulation (GDPR), have prompted many organizations to look into the costs associated with an attack, the possible business interruption that may occur, the impact on a company’s reputation, and the need for cyber liability insurance.

A study conducted by Zurich North America and Advisen found that cyber insurance take-up rate rose 10 percent between 2017 and 2018. *The Eighth Annual Information Security and Cyber Risk Management Survey* attributes this increase to regulatory changes and business continuity risks.

Cyber insurance has been the biggest organic growth opportunity for the commercial insurance industry in recent years. The market for this type of insurance is expected to continue to grow.

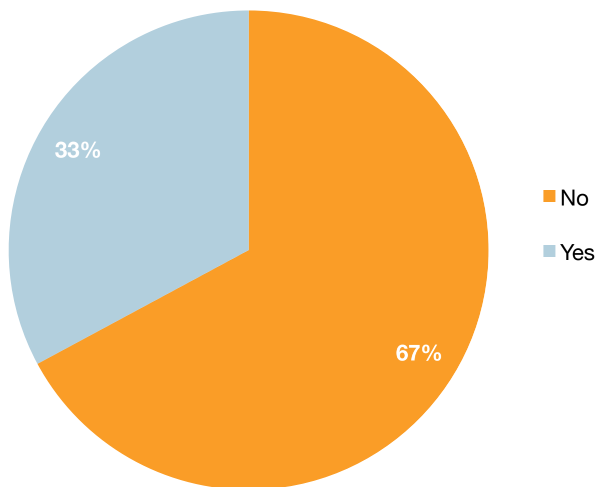
In 2017, TMPAA and Advisen started tracking administrators’ and carriers’ views and practices related to cyber coverage. The survey found that as of 2016, take-up rates for cyber coverage was relatively low in program business.

For ***The TMPAA State of Program Business Study 2019,*** respondents were again asked a series of questions aimed at gathering data about the cyber-related practices in program business. Results show that there is plenty of room to grow for cyber coverage in program business.

Thirty-three percent of the administrators polled said they offer a standalone cyber policy, while 67 percent said they do not. Compared to results of the previous survey, the percentage of those that offer a standalone cyber policy dropped from 42 percent in 2016 to 33 percent in 2018.

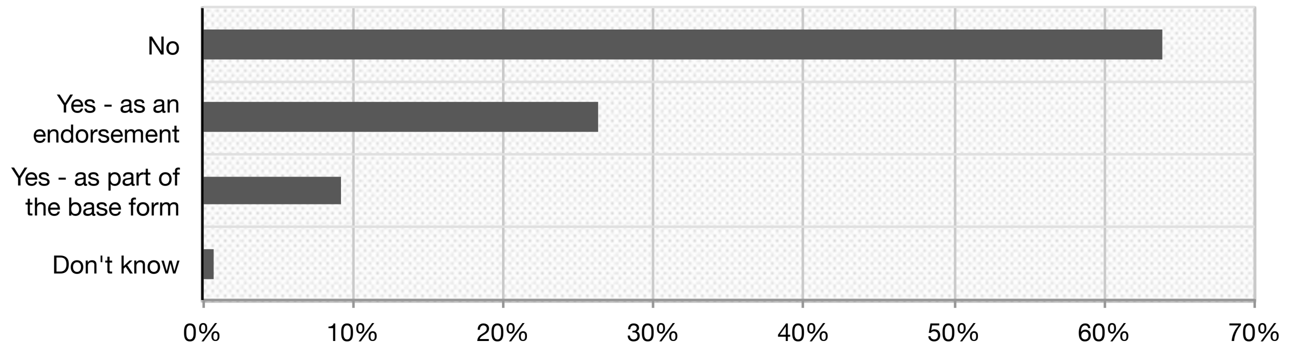
Commenting on cyber coverage in program business, Allianz's Amy Malanaphy said that it "Depends on the exposure risk if it is a throw-in or a standalone. It's either a throw-in if it's a low exposure or if it's a higher hazard, it's usually a standalone."

ADMINISTRATORS: DO YOU OFFER A STANDALONE CYBER POLICY?



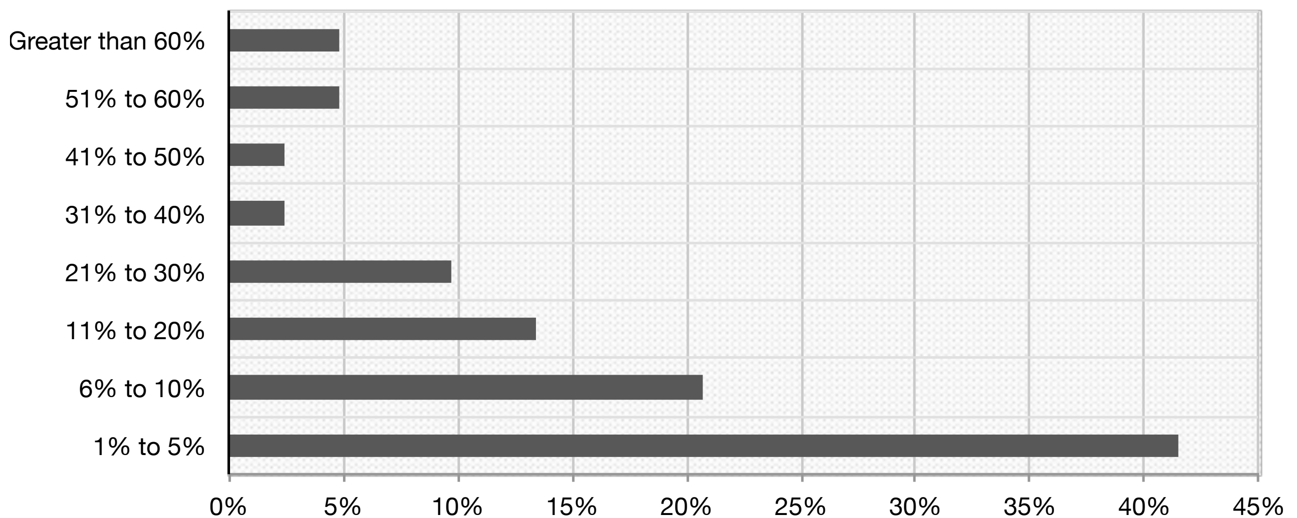
Asked if they include cyber as part of their standard package policy, 64 percent said no. Twenty-six percent of the administrators surveyed said they include it as an endorsement, while nine percent said they include it as a part of the base form at no charge.

ADMINISTRATORS: ARE YOU INCLUDING CYBER AS PART OF YOUR STANDARD POLICY?



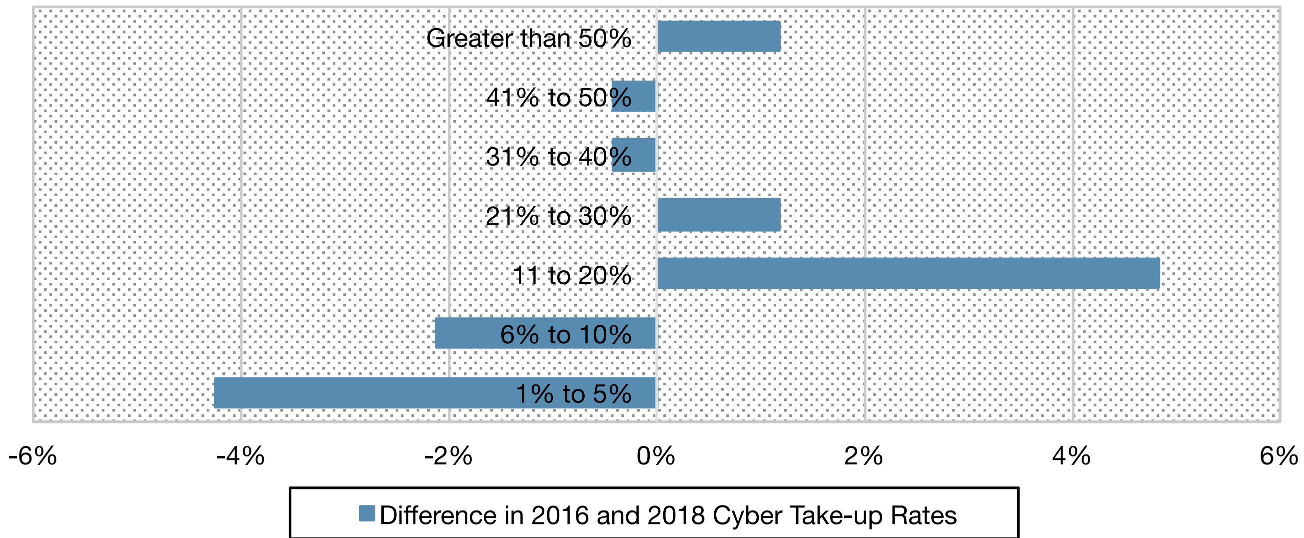
To the question "Where it's optional, approximately what percentage of your insureds purchase cyber coverage?" Forty-one percent of administrators polled said one percent to five percent, while 21 percent said six percent to 10 percent. Thirteen percent responded 11 percent to 20 percent, while 10 percent said 21 to 30 percent. Five percent each responded 51 percent to 60 percent and greater than 60 percent. Two percent each responded 31 percent to 40 percent and 41 percent to 50 percent.

ADMINISTRATORS: PERCENTAGE OF INSUREDS THAT PURCHASE CYBER INSURANCE



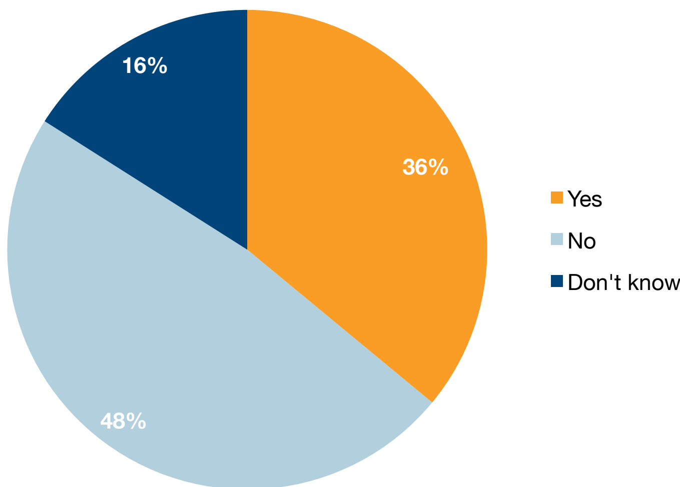
Interestingly, a comparative analysis between 2016 and 2018 responses show a marginal increase in cyber take-up rates. Advisen's analysis shows that take-up rates for cyber improved among administrators as the percentage of respondents reporting 11% to 20%, 21% to 30%, and greater than 50% in terms of percentage of insureds purchasing cyber cover went up between 2016 and 2018.

DIFFERENCE IN 2016 AND 2018 CYBER TAKE-UP RATES



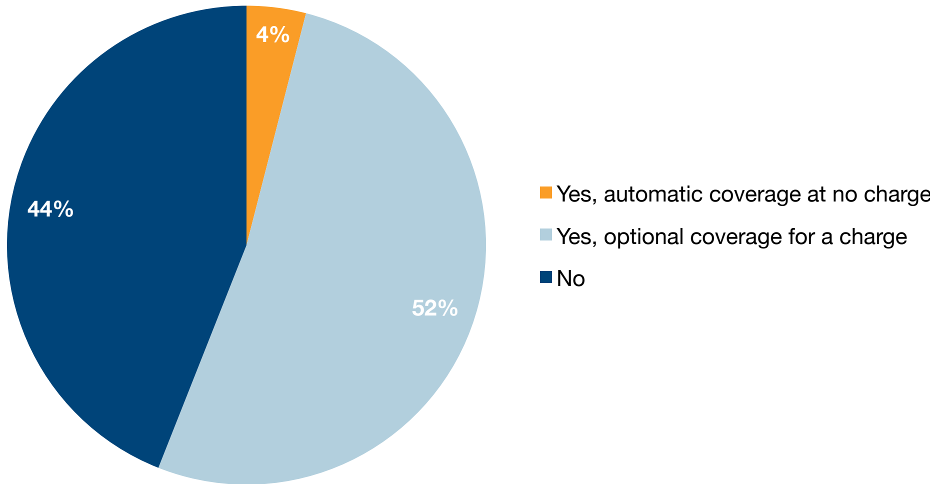
Among carriers, 36 percent of those polled said their administrators offer a standalone cyber policy, while 48 percent said they do not. The remaining respondents have no view.

ARE YOUR PAs OFFERING A STANDALONE CYBER POLICY?



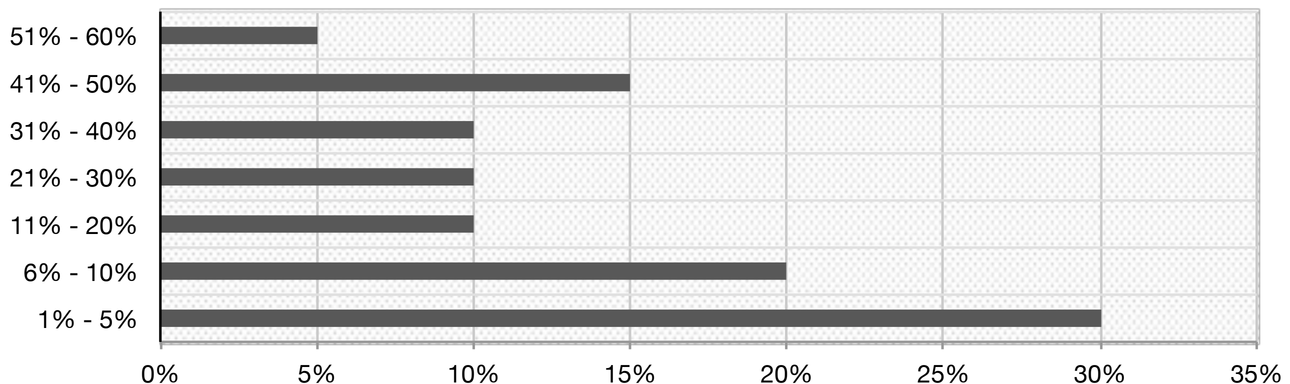
Fifty-six percent of carrier respondents offer their program administrators cyber cover to add to their program packages, while 44 percent do not. Of those who said yes, 52 percent reported offering it as optional coverage for a charge, while four percent offer automatic coverage at no charge.

DO YOU OFFER YOUR PAs CYBER COVER TO ADD TO THEIR PROGRAM PACKAGES?



Like their administrator peers, carriers who participated in the 2019 poll registered a relatively low cyber take-up rate. Asked about the percentage of their insureds that purchase cyber cover, 30 percent of the carrier respondents reported one to five percent, 20 percent said six to 10 percent. Fifteen percent of the respondents said 41 to 50 percent, while five percent said 51 to 60 percent. Ten percent each said 11 to 20 percent, 21 to 30 percent, and 31 to 40 percent. Since this is the first time that TMPAA and Advisen asked carriers this question, there is no data available to compare this finding with.

CARRIERS: PERCENTAGE OF INSUREDS THAT PURCHASE CYBER INSURANCE



Diversity in Program Business

The #MeToo movement has shone a spotlight on gender bias and harassment in the workplace. Apart from inspiring victims of bias and abuse to expose their alleged abusers, the movement prompted firms across various industries to re-examine their policies on diversity and inclusion.

For the first time since ***The TMPAA State of Program Business Study*** was launched, TMPAA and Advisen queried program administrators and carriers about their efforts to diversify the workplace.

Baseline data gathered by the study on diversity in program business offers a peek into the views and practices of administrators and carriers related to inclusion. TMPAA and Advisen will continue to track this issue in future surveys with the goal of looking at changes in views over time and providing useful data to TMPAA members.

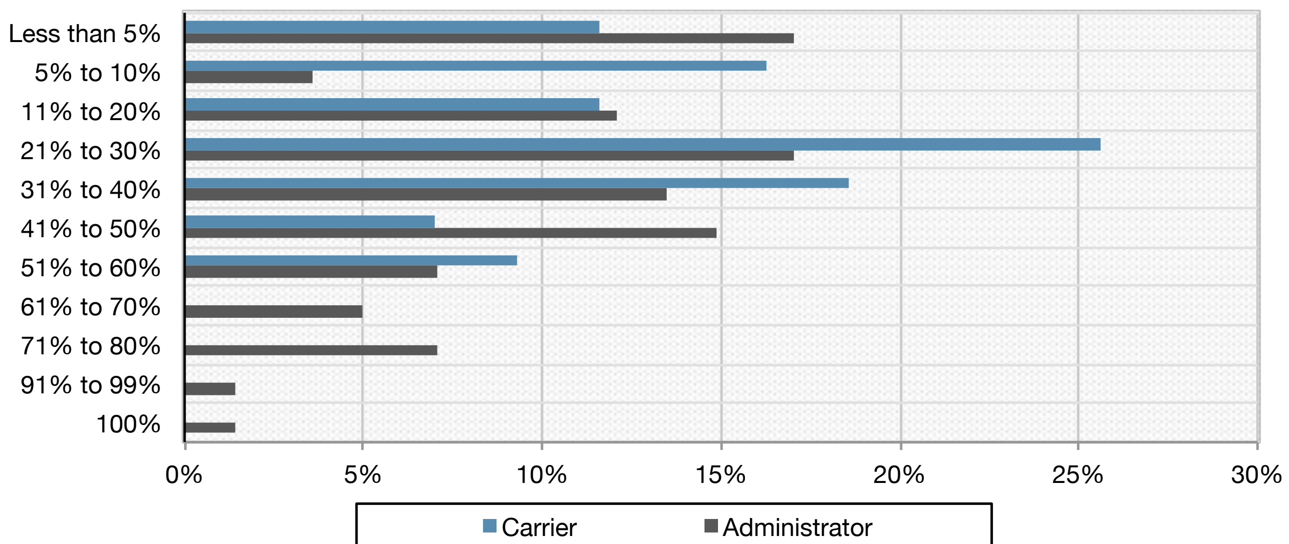
Approximately what percentage of your firm's senior management is female? What percentage are minorities?

Based on responses to the survey, administrators appear to have greater success in including women in their senior management.

Seventeen percent of administrators polled said less than five percent of its senior management are female, while another 17 percent said 21 percent to 30 percent. Fifteen percent said 41 percent to 50 percent, 13 percent said 31 percent to 40 percent, and 12 percent said 11 to 20 percent. Seven percent each said 51 percent to 60 percent and 71 percent to 80 percent. Five percent said 61 to 70 percent of their senior management are female, while four percent said five to 10 percent. Only one percent each reported 91 percent to 99 percent and 100 percent.

In the case of carriers, 25 percent of those polled said 21 to 30 percent of its senior management are female, 19 percent said 31 percent to 40 percent, and 16 percent said five to 10 percent. Twelve percent said 11 to 20 percent, while another 12 percent said less than five percent. Nine percent said 51 to 60 percent and seven percent said 41 to 50 percent.

COMPARATIVE ANALYSIS OF PERCENTAGE OF FEMALES IN FIRMS' SENIOR MANAGEMENT

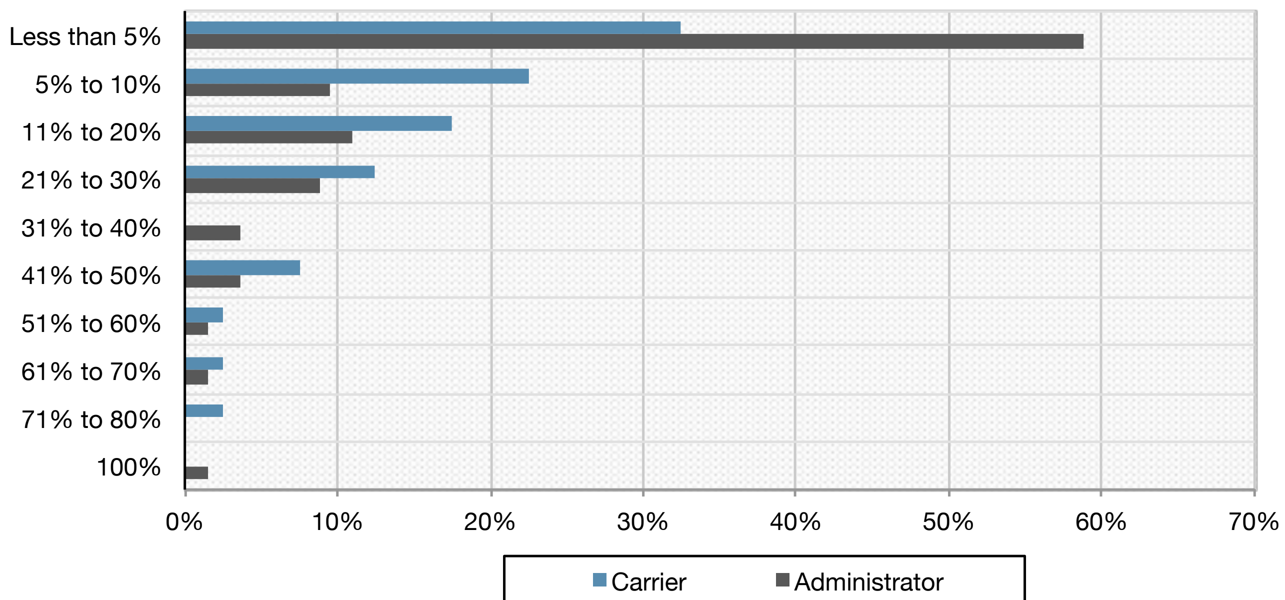


A comparison of responses on including minorities in senior management indicate that carriers have greater success in ensuring diversity by including minorities.

A third of the carriers surveyed (33 percent) said less than five percent of their senior management are minorities. Twenty-three percent of the participants said five percent to 10 percent, while 18 percent said 11 percent to 20 percent. Thirteen percent of the carriers surveyed said 21 percent to 30 percent, while seven percent said 41 percent to 50 percent. Two percent each said 51 to 60 percent, 61 to 70 percent, and 71 to 80 percent.

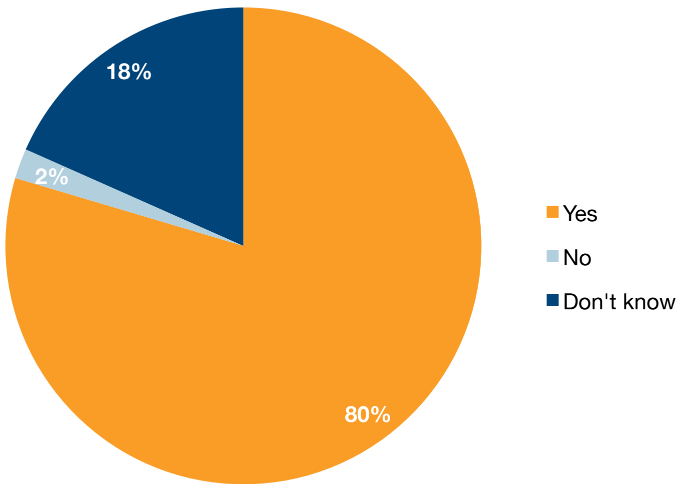
On the other hand, the majority of administrators polled (80 percent) said less than five percent of their senior management are minorities. Fifteen percent of the participants said 11 percent to 20 percent, while 13 percent said five percent to 10 percent, and 12 percent said 21 percent to 30 percent.

COMPARATIVE ANALYSIS OF PERCENTAGE OF MINORITIES IN FIRMS' SENIOR MANAGEMENT



Carriers were also asked whether or not their firms have adopted hiring practices geared toward diversifying their employee population. Eighty percent of the carriers reported that they have adopted such practices. Two percent of those surveyed said they have not adopted such practices, while the remaining 18 percent have no view on the matter.

HAS YOUR ORGANIZATION ADOPTED HIRING PRACTICES INTENDED TO DIVERSIFY YOUR EMPLOYEE POPULATION?

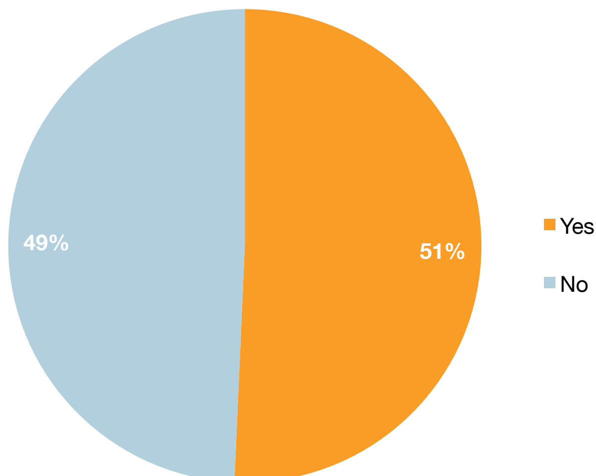


Risk Sharing

As with the previous poll, administrators and carriers were asked about their risk sharing practices. Survey results indicate that a greater percentage of carriers have risk sharing agreements.

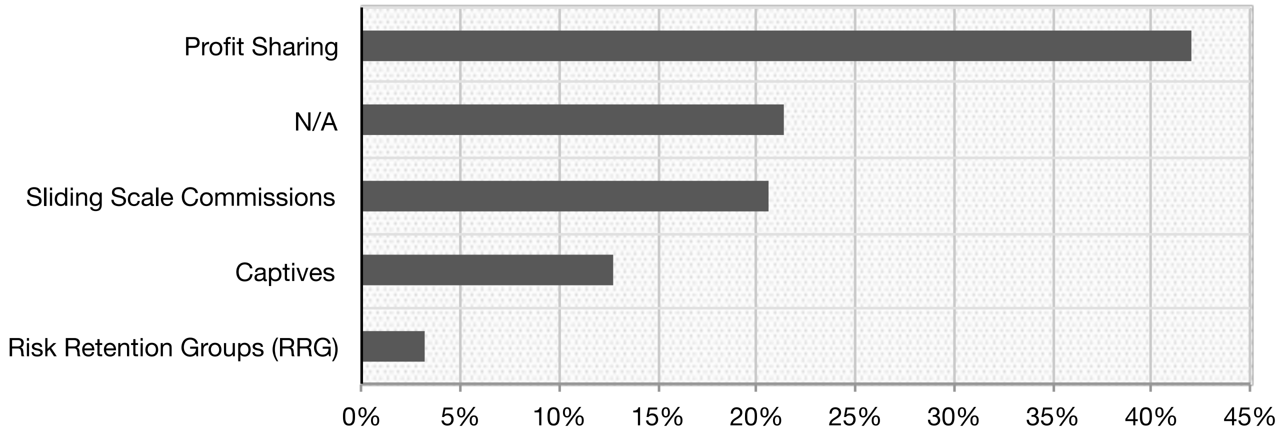
Fifty-one percent of administrators risk share in both underwriting gain and loss, while 49 percent do not risk share in their programs.

ADMINISTRATORS: DO YOU “RISK SHARE” IN YOUR PROGRAMS?



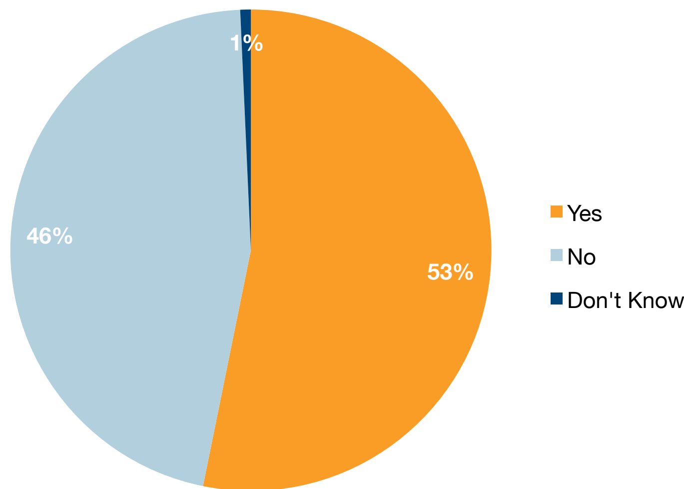
The top risk sharing methods used by administrators are profit sharing and sliding scale commissions.

ADMINISTRATORS: RISK SHARING METHODS



Asked if they have any programs that do not include a profit sharing component, 53 percent of the administrators said yes, while 46 percent said no.

ADMINISTRATORS: DO YOU HAVE ANY PROGRAMS THAT DO NOT INCLUDE A PROFIT SHARING COMPONENT?



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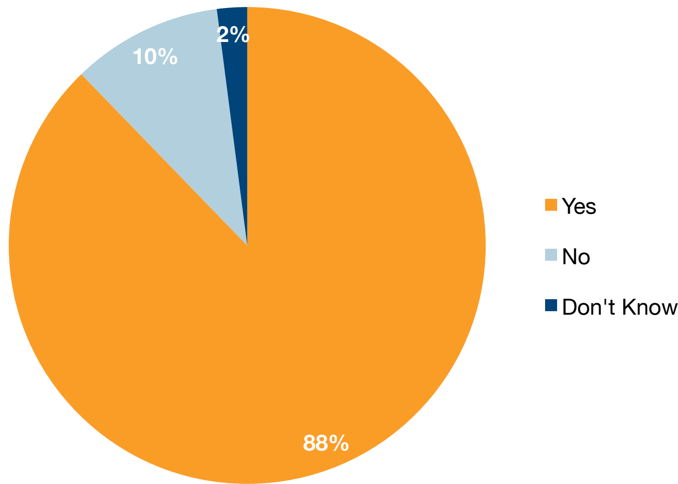
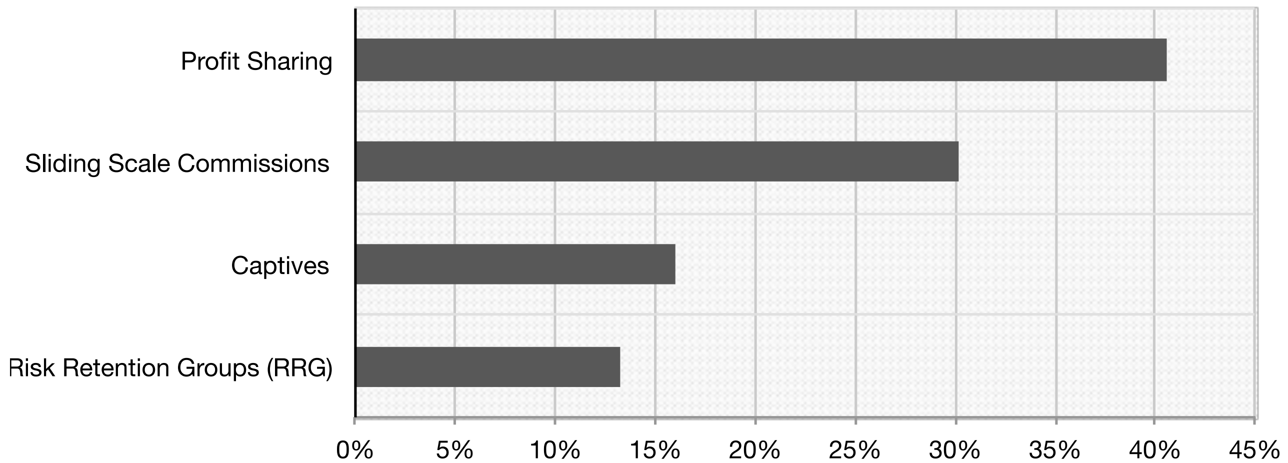
Eighty-eight percent of the carriers polled offer risk sharing agreements where the program administrator share a direct percentage of profit and loss of the program. Ten percent do not offer such agreements, while two percent have no view on the matter.

DO YOU OFFER RISK SHARING AGREEMENTS WHERE THE PA SHARES A DIRECT PERCENTAGE OF PROFIT AND LOSS OF THE PROGRAM?



Like administrators, the top risk sharing methods used by carriers are profit sharing and sliding scale commissions.

CARRIERS: RISK SHARING METHODS



Strengths and Weaknesses of Program Business

Administrators and carriers are in sync when it comes to what they view as the strengths of program business today. Many of those polled from both groups mentioned that specialization or expertise within a niche remains one of the major strengths of the program space. “Programs specialize in a particular class. The expertise that program underwriters provide is of increasing importance in today’s complex risk environment. Specialization is the order of the day,” one administrator respondent said.

For a carrier respondent, strength is seen in the fact that the “Program business brings with it more focus and understanding of a product or industry niche. That focus and understanding produces better results than the traditional insurance industry by bringing additional services and data into the equation.”

Versatility is another theme that emerged in the analysis of qualitative responses to survey questions. Many respondents pointed to program business’ ability to tailor coverage based on what is needed, as well as its ability to evolve quickly as among the pillars of success of the program model.

“Program business model is versatile. For an insurance carrier, it is a means by which new products can be brought to market faster and more efficiently without the expense of building and maintaining underwriting capabilities and establishing broker/agent networks,” a carrier commented.

Another carrier agreed, saying program administrators’ “Ability to be flexible and amend pricing, policy forms and cover where required” is a key strength.

For an administrator polled, strength is also shown in the business’ “ability to bundle and customize a unique set of insurance products and services around a distinct, definable, homogenous class of customers. Also the ability to develop independent rates and develop credible statistical data, to more intelligently underwrite and price that segment of customers.”

Several respondents also talked about the opportunities provided by the program model.

According to one carrier participant, “Program business is growing faster than traditional commercial lines, offering opportunities to grow with profitability. The knowledge and expertise program administrators bring creates opportunities for carriers to offer creative coverages and have confidence working in the MGA model.”

"The strengths of program business today are the same as they always have been. And they are needed more than ever. Program business provides an affordable way to obtain high limit products," an administrator commented.

In terms of weaknesses, both administrators and carriers identified tough competition as a significant obstacle faced by the market. "More competition drives down premiums making the act of writing profitable business more difficult," one carrier said.

A number of carriers also pointed to the lack of proper data collection among program administrators as a weakness of the business. "Some program administrators do not have an understanding of what data needs to be collected and by what methods on both the policy side and the claims side. Once data is collected, program administrators must store and maintain data and be able to demonstrate how it will be used and properly analyzed before being shared with program carriers," a carrier respondent commented.

Another carrier also mentioned that the "lack of data standards between carriers and the ease of collecting such data from PAs" as a weakness. "Although there are standard data elements for admitted business because of ISO stat reporting, the E&S space is the wild, wild west, and what may be a standard for carrier A is not a standard for carrier B. As a result, the PAs often don't know what the carriers need. Further, diversification of the PA contracts make it difficult for PAs to control both UW/premium and claims data. Oftentimes, there is such a focus on getting the UW/premium data to the carrier that the PA doesn't think about capture claims data. As a result, when moving the program the PA doesn't always have the claims information needed to successfully analyze the program."

A lack of understanding of carrier profitability was also identified by several carriers as a weakness of program business. "Program administrators often do not understand carrier profitability and struggle when they are told results are failing. Delegated authority always brings a certain amount of risk to the carrier, ie., breach authority and poor underwriting. The talent pool for great program managers is very limited."

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A lack of understanding of carrier profitability was also identified by several carriers as a weakness of program business. "Program administrators often do not understand carrier profitability and struggle when they are told results are failing. Delegated authority always brings a certain amount of risk to the carrier, ie: breach authority and poor underwriting. The talent pool for great program managers is very limited. Many carriers are too slow to make decisions to terminate a program based on premium size which often shadows the overall financial impact to the company," explained a carrier respondent.

Opportunities and Threats

What opportunities and threats do you see for program business in the next five years?

Administrators and carriers are in general agreement that insurtech is both an opportunity and a threat.

Technology and data analytics continue to force discipline into the underwriting/pricing process. This should drive out poor/unethical players and create more stability for PAs, their carriers, and customers. Technology is improving margins which are already superior to generalist insurance businesses," one administrator commented.

Another administrator believes that "Technological methods of distribution and underwriting will look completely different in five years. Those willing to adapt to this reality have a future."

Offering a carrier perspective on insurtech as an opportunity, one respondent sees the utilization of technology as a means to create efficiencies. For another carrier, "Technology will be able to be delivered and designed on a focused basis. Better bang for the buck than agents developing technology on a more generalist basis."

On the other side of the fence are respondents who view technology as a threat. For one carrier polled, there is a danger of "tech overriding common sense."

While the hardening market has been identified as a threat by several respondents, a number of survey participants also look at it in a positive light. One administrator sees an opportunity in "providing new products for emerging and existing markets displacing marginal carriers in a hardening market." For another administrator, "a hardening market will make program administrators more valuable to retail agents."

The move toward greater specialization was also identified by several administrators and carriers as an opportunity. "There will be a continued demand for niche-based insurance products and opportunities for new product development. Stay ahead of the curve, continue to focus on human talent as we take advantage of new technologies and we will remain a valued partner to carriers looking to increase market share profitably," commented one administrator. Another administrator expressed optimism, saying that "The world is moving towards specialization, which should increase premium and commission revenue for the program space." One carrier looks forward to "continued growth and continued specialization."

Other opportunities listed by respondents include emerging areas of business, the consolidation of the agency/broker channel, restoration of market discipline, availability of a lot of premium in the coming years, influx of younger talents, and outsourcing for speed of market.

A major threat identified by both administrators and carriers is the continued consolidation in the market. According to one administrator surveyed, "consolidation has its benefits, but will also crowd out innovation as it becomes more difficult to enter the space or start new programs." Another administrator worries that the continued

consolidation among insurers will render administrators useless. "The bigger they get, the less they think they need us. Bigger players getting bigger via acquisition. Same issue with brokers." There are also "investors/acquirers who have little concern with the underwriting results, are forcing their acquisitions to focus on income over underwriting profit.

"Utterly stupid underwriting", "irresponsible underwriting", and "poor underwriting discipline" were also listed by a number of administrators as a threat. Some called for the need for disciplined underwriting and increased underwriting expertise in the program space.

Future Prospects of Program Administration Business

Since the launch of ***The TMPAA State of Program Business Study*** nearly a decade ago, administrators and carriers have consistently expressed optimism about the future of program business.

Administrators and insurers overwhelmingly see bright years ahead for the program space. 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.

Commenting on the future prospects of program business, one carrier said that the, "Future remains positive as markets continue to clean out their respective underperforming classes/programs while focusing on market differentiation defined as a proven competitive advantage in one or more of the following four areas (other than price): Underwriting Expertise, Customized Coverage Products, Specialized Services such as Claims and/or Loss Control, and Distribution Channel."

An administrator shared this positive view, saying that program business "has proven to be an advantageous business model for both the carriers and the distributors. It should continue to gain momentum and attract a larger share of the commercial insurance premium dollar."

Another administrator sees "Great opportunities in the next three to five years for firms that are well-postured by brand reputation and financial positioning." The administrator highlighted that "partnerships with lead global markets to further program development with shorter gestation times."

> *"Program business is a great business when done right."*

A number of respondents believe that working only with best in class administrators is crucial to sustaining the industry's success. "Program business is a great business when done right. It will be the carriers that best understand the financial impact on their program results, are nimble enough to make the right decisions, and choose only the best in class in program administrators to partner with. Never underestimate the value of best in class program managers – the folks that manage the programs for the carriers. Their diverse skill set while specialist in certain lines coupled with the ability to foster great relationships without bias is a key to success," a carrier explained.

Echoing this view, an administrator said that “as the prominence of program administrators continues to grow, it will be essential that the insurance companies (balance sheets) continue to only do business with best-in-class PAs. We don’t want a repeat of the 1980s and 1990s when the space included sub-par actors.”

For some, a bright future is hinged upon the capability to invest in and utilize insurance technology. “Future prospects are good for those program administrators who invest in technology and data analytics,” an administrator said. Another administrator commented that “Administrators who adapt to the digital age will survive, the others will not.”

Another respondent said that sustaining program business’ success relies on fresh talent. “Provided the next generation of talent entering the program segment has been properly prepared for the unique challenges they face, the program market will continue to grow and flourish.”

Overall, those who shared their views are in general agreement that “the program space will continue to be a strong part of the overall insurance marketplace.”

SURVEY SUMMARY AND CONCLUSIONS

The program space continues to see phenomenal growth and appears on track for further expansion, according to ***The TMPAA State of Program Business Study 2019.***

An analysis of survey results shows that program administrators still outperforms the overall property/casualty insurance market.

One of the most significant finding of the survey is the dramatic increase in the involvement of administrators with various forms of insurance technology. Responses indicate that administrators have caught up in terms of insurtech and are now harnessing various technologies and applying them to various areas of program business. An analysis of sources of insurance technology that administrators are more keen to develop their own technologies compared to their carrier counterparts who tend to rely on their partners for insurtech.

A look into cyber-related views and practices shows a marginal increase in take-up among administrators. Still, there is plenty of room to grow for cyber among both administrators and carriers.

An analysis of strengths revealed that program business' versatility and expertise within a niche continues to make it an attractive mode of distribution. However, it needs to address several weaknesses including the lack of underwriting expertise, increasing competition, and lack of data standards.

Not surprisingly, both administrators and carriers are optimistic about what the future holds for program business niche. However, they are in agreement that if program business is to continue to flourish, the onus is on administrators to constantly re-examine efforts to invest in technology to boost efficiency, improve underwriting expertise, and maintain its flexibility.

Gotta wear shades. Success will be contingent on nexus of efficiency and economies of delivery and marketing to buyers," commented one administrator on the future of program business.

The 2019 poll is the seventh in a series of annual surveys of program administrators and carriers to track trends in program business. TMPAA, Advisen, Allianz, Allied World, AmWINS, Live Oak Bank, and NetRate Systems 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.

TARGET MARKETS Program Administrators Association

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ORGANIZERS

About TMPAA

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

About Advisen

Advisen 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

AGCS US provides a full range of unique end-to-end risk solutions and services for our corporate clients. We offer insurance solutions for the following products and industries – Agribusiness, Alternative Risk Transfer, Aviation, Cargo, Engineering, Energy, Entertainment, Financial Lines, Hull & Marine Liabilities, Inland Marine, Liability, Middle Market, Allianz Multinational solutions, specialized broker-led Programs, Property insurance (inclusive of Highly Protected Risk insurance) – as well as Risk Consulting services.

Program Business Strategy

AGCS US Programs division provides customer focused and innovative solutions in a wide variety of product lines including Middle Market, Marine, Aviation, Liability, Financial Lines, Entertainment and Alternative Risk Transfer. We focus on creating a solid and sustainable partnership, and therefore, besides insurance capacity, we provide our valued partners access to our risk consulting services, innovation tools and others.

Our main focus is on programs with a proven track record and with premium of $5M-$10M with ability to grow. We do support programs below $5M of premium and/or startup programs depending on their unique distribution channel, value proposition and growth potential.

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Company Description

Allied World Assurance Company Holdings, GmbH, through its subsidiaries, is a global provider of insurance and reinsurance solutions. We operate under the brand Allied World and have supported clients, cedents and trading partners with thoughtful service and meaningful coverages since 2001. We are a subsidiary of Fairfax, and we benefit from a worldwide network of affiliated entities that allow us to think and respond in non-traditional ways. Our capital base is strong, our solutions anticipate rather than react to changing trends, and our teams are focused on establishing long-term relationships that are mutually beneficial.

Program Business Strategy

Working with lead program administrators to bring clients the innovative and comprehensive insurance protection is what sets Allied World apart. By discovering industries and product specialties that have been underserved by traditional insurance markets, we are able to build coverage solutions and services that support niche needs.

Industries served include but are not limited to Auto Dealerships, Construction, Habitational & Hotels, Healthcare, Public Entities/Public Service, Restaurants & Grocers, Sports & Leisure, and Wineries & Breweries

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Company Description

AmWINS Underwriting, a leading national MGA platform, offers superior program administration and expertise that spans product lines, industry segments and business types. Our focus on unparalleled customer service and profitable underwriting has earned the trust of financially sound carrier partners for decades. With more than 30 locations, 50 programs and 650 employees across the country, AmWINS Underwriting is positioned to deploy niche expertise to help carriers, retailers and wholesalers grow their business and provide solutions for their clients.

Program Business Strategy

AmWINS Underwriting recognizes that not all business risk is created equal. That is why we have dedicated our practice to niche industries, creating a team of underwriting specialists that understands the nuances of the markets they support. This approach, when combined with our leading-edge technology, enables us to nimbly serve up coverage solutions backed by data and expertise. As a division of AmWINS Group, AmWINS Underwriting is strengthened by the power of a brand that is known across the industry for its commitment to service and quality.

Contact us for underwriting expertise across all lines, in the following segments: Agribusiness, Construction, Energy, Environmental, Healthcare, Hospitality, Flood, Logistics & Marine, Manufacturing & Distribution, Professional, Property, Real Estate, Transportation, and Worker's Compensation.

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Company Description

Live Oak Bank specializes in lending to the insurance industry nationwide. Our dedicated insurance lending team is solely focused on your industry – all day, every day. Whether you're looking to acquire or sell, refinance an existing loan or hire a team or new producer, we will design a loan package that works for your business. Our team has over 60 years of experience in operations, financing and acquisitions. Using our insurance industry knowledge and lending expertise, we'll help you meet challenges, avoid pitfalls and capitalize on opportunities in the market. Discover how we can help you: liveoakbank.com/insurance.

Program Business Strategy

We look for lending opportunities to support proven insurance professionals. Loan size up to $20mm. Typical deals are ownership / partnership related. We can also support transactions to provide captive / collateral funding, refinance, investor buyouts.

All lines of business are considered, we focus on sustainable underwriting results and overall profitability.

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Company Description

Headquartered in Okemos, Michigan since 1998, NetRate Systems, Inc. supplies commercial lines rating solutions for program administrators, managing general agents (MGAs) and insurance carriers. Our products include nationwide rating of ISO-based General Liability, Property, Commercial Auto, Crime and Inland Marine, as well as NCCI-based Workers' Compensation. We also offer custom development for all lines of business, which is critical in the program insurance business. NetRate handles the complete policy life cycle, including endorsements, renewals and cancellations, as well as integration with numerous third-party applications and data source providers.

Program Business Strategy

NetRate Systems, Inc. is a commercial lines rating vendor, supporting the needs of program administrators, MGAs and insurance carriers. We have customers specializing in all sorts of program businesses, such as rental equipment, golf courses, day spas, landscaping and commercial trucking to name a few.

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