Purpose

On March 15, 2021, It came to the attention of the TMPAA that AM Best is proposing to introduce a new assessment that would effectively grade or score the quality of underwriting entities operating as Program Administrators, MGAs, Cover holders and similar entities with whom carriers entrust underwriting authority, collectively referred to hereafter as Designated Underwriting Authority Enterprises (DUAEs).

Given the request by AM Best for industry feedback and considering the potential impact to the DUAEs under review, which would include all our membership, we quickly solicited the feedback from our carrier and PA members.

Synopsis of AM Best's Performance Assessment for PAs and DUAEs

AM Best describes their performance assessment as a forward looking, independent, and objective non-credit opinion of a DUAE's relative ability to perform services on behalf of its insurance partners. Per Best, the assessment would include "A comprehensive analysis consisting of a quantitative and qualitative assessment of Underwriting Capabilities, Governance and Internal Controls, Financial Condition, Organizational Talent, and Depth and Breadth of Relationships." The assessment would be facilitated by an analyst who collects required information from the DUAE and then "manages the continuous interaction with company management" as well as "ongoing monitoring and dialogue with management that occurs through scheduled meetings, as well as interim discussions on key trends and emerging issues, as needed". The plan would be to update annually unless significant developments would warrant a more frequent review. Important to note, the assessment is promoted as a voluntary process.

AM Best, in conversation with the TMPAA, provided the following reasons for developing the DUAE assessment:

1. Historically there have been instances where MGAs have caused major problems for carriers. This will help insurance companies get greater control over their delegated business.
2. Concern about InsureTech taking increasing control over managing risk from insurance companies
3. Increasing amount of business being done by MGAs – both inside and outside US

Scope of Response

The comments made in this document express the majority opinion of TMPAA Program Administrators and Carrier members who provided survey feedback about the AM Best Performance Assessment or contacted the association to share their views.

The TMPAA's 350 program administrator members represent a significant percentage of the entire program market and are responsible for over 80% of the $40.5 billion of written premium in program business. Most carriers of significance writing programs are also members of the association.

Program Administrator Feedback

There was consistency in the survey responses offering the following feedback from our PA members:

- Many members were aware of no current issues that will be mitigated by this assessment of a DUAE, leaving most respondents questioning its value altogether.
- Concerns expressed about this process becoming an additional regulatory style burden that will increase the DUAE expense in time and resources spent for something for which they do not see a return on investment.
- This assessment would be an additional expectation that will exist on top of the carrier's due diligence reviews and annual audits.

- Low level of confidence expressed in AM Best being able to assess the more subjective areas of a DUAE's business, such as underwriting experience of employees and relationships with their carrier partners.
- Overall concern about the subjectivity of the AM Best assessment methodology.
- AM Best has not disclosed fees involved in this assessment process.
- Concern that this will have a greater impact and burden on smaller DUAEs and would promote even greater industry consolidation.
- Carriers may opt not to work with a DUAE that is unable to receive a favorable rating OR who chooses not to get rated.
- A small number of PAs indicated interest in being able to differentiate their business with an AM Best review, but much depends on pricing, time commitment and objectivity.

Carrier Partner Feedback

While generally more open to the idea overall, they had the following concerns:

- Our carrier members expressed similar skepticism around what industry problem this purports to solve.
- Carriers universally indicated that this assessment would not be adequate for them to forgo their own due diligence and auditing of their DUAEs.
- Shared concern about an outsized impact on the smaller DUAEs while the larger institutions could more easily absorb the added burden.
- Concern that smaller, less well capitalized, carriers will choose to use the AM Best assessment to replace a more robust due diligence process required for successful PA/Carrier business relationships.

Majority Position of TM Member Respondents

The overriding consensus of TMPAA members, both from our survey results and direct feedback, is that the AM Best performance assessment is designed to address a problem in the industry that does not currently exist. The sophistication of PAs has dramatically improved in the past two decades (technology, data…etc.), and the premise that program administrators and other delegated underwriting authorities jeopardize the financial stability of their carrier partners is inaccurate.

A common theme expressed was that program carriers are in the best position and the most competent to conduct audits on their own programs. It is clear from our survey results and feedback that the AM Best performance assessment will not replace carrier due diligence for new program partners or ongoing audits of current partners. The addition of another assessment could result in a costly and burdensome audit process that has no tangible benefit. It was suggested that if it was the desire of AM Best to include quality of distribution in carrier ratings, a more thorough review of a carrier's delegated authority audit process would accomplish this goal more efficiently. In addition, AM Best's expertise pertains to assessing financial stability, not in assessing underwriting proficiency.

Another theme expressed is, that in an environment of increased efficiency to ensure underwriting profit, the potential of adding another audit would be time consuming, expensive, and redundant. The expense of another audit would require negotiations with carrier partners for increased commission to cover these costs or be passed on to the consumer with increased premiums. In addition, privately held program administrator companies would object to sharing financials with AM Best, or any other third-party entity.

A widely shared view indicated that small, start up, entrepreneurial program administrators would have difficulty complying with the assessment requirements of the AM Best evaluation. If accurate, this would have a chilling effect on innovation and improved coverages available to the consumer.

A number of respondents worried that carriers may run the risk of losing very profitable program administrators that might not score well on the AM Best assessment. Carriers could also potentially risk losing profitable relationships if they insist on having their program partners rated by AM Best.

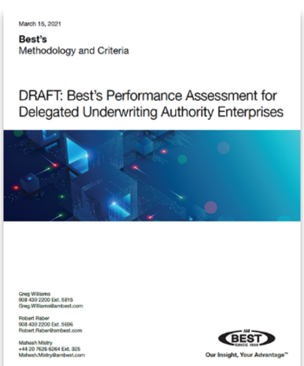
Conclusion

The recent effort by AM Best to introduce a voluntary performance assessment of DUAEs represents their entry into an area which many TMPAA members believe is beyond their expertise and provides no increased security for the consumers or carriers that support this segment. This initiative may in fact suppress the innovation of new products traditionally brought to the industry by program business entrepreneurs.

It is important to understand that concerns expressed about the AM Best Performance Assessment is not a flight from best practice scrutiny. Most program administrators have made significant investments in insurtech infrastructure to optimize and fine tune underwriting, claims, and risk mitigation measures to perform at the highest possible standards. Many larger program operations that have multiple programs with unique carrier partners undergo a constant stream of audits by their carrier partners. A separate assessment that encompasses the entire enterprise would not only be difficult for the evaluator, it would be overwhelming and counterproductive for the program entity.

Lastly, although introduced as a voluntary process, many respondents believed that there is an inherent conflict of interest with a rating agency offering an assessment process to delegated underwriting authorities, the lack of which could at some point impact carrier ratings. This would in effect compel program administrators to participate in the AM Best assessment to protect their program and carrier partner.

The TMPAA Advisory Board believes that it is important for Association members to be familiar with the potential far-reaching implications of the AM Best DUAE assessment, enabling them to have informed conversations with their program partners and stakeholders about the use of this tool.



DRAFT: Best's Performance Assessment for Delegated Underwriting Authority Enterprises

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