

THE TMPAA STATE OF PROGRAM BUSINESS STUDY 2019



RESEARCH AND ANALYSIS BY:



SPONSORED BY:





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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

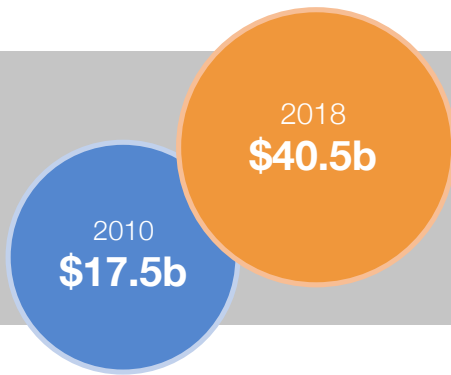
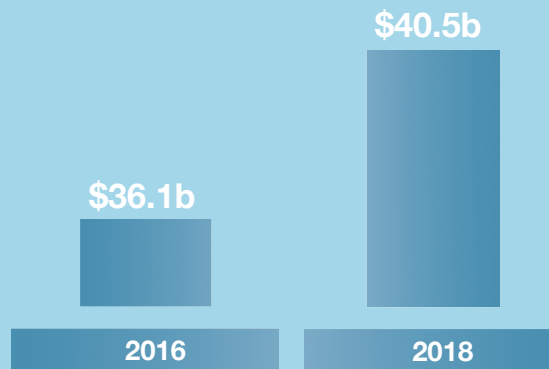
The TMPAA State of Program Business Study 2019



\$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





Program business' success story

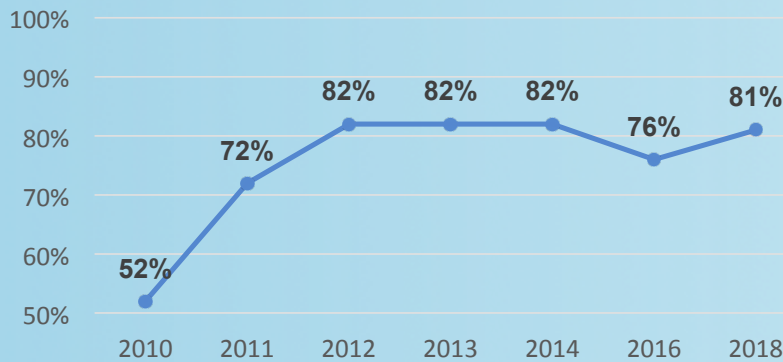
continued as the industry posted upbeat results in 2018



Program business continues to outpace the overall commercial insurance marketplace.

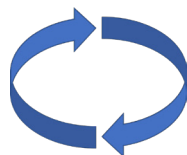
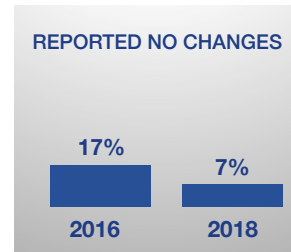
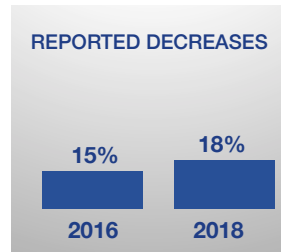
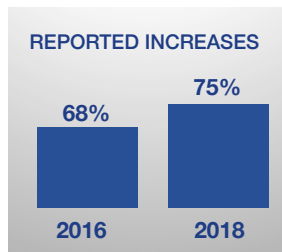
While the size of program business rose 10.36% in 2018, the growth in direct premiums written for commercial lines increased by only 9.97% in 2018.

Percent of administrators reporting increases in premiums administered



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



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

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





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



WORKERS COMPENSATION



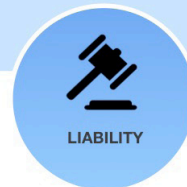
PROFESSIONAL LIABILITY



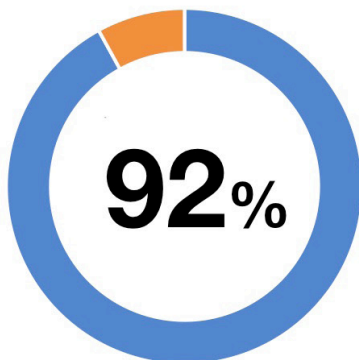
PROPERTY



EXCESS/ UMBRELLA



LIABILITY



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



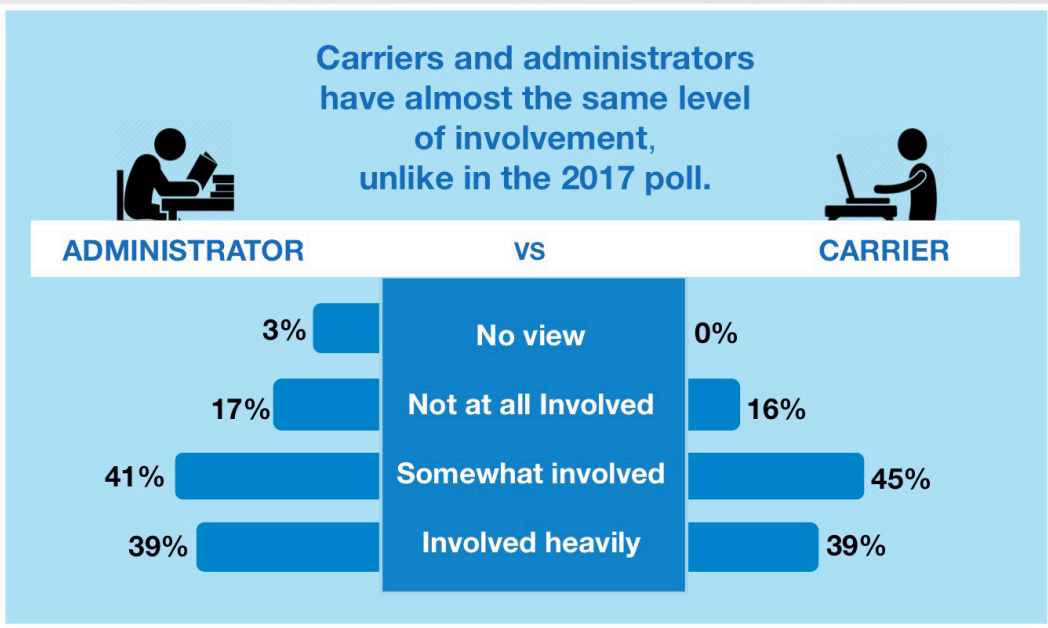
All carriers surveyed anticipate increasing the amount of premium written in the next three years.



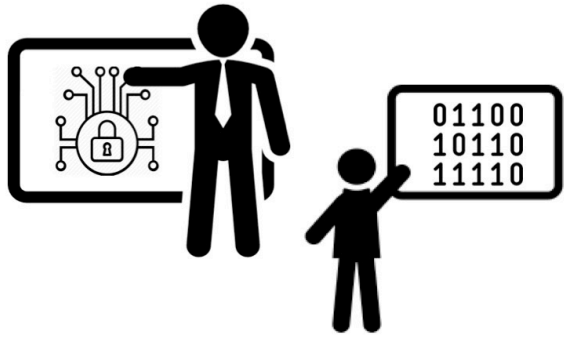
Program administrators' involvement with insurtech increased dramatically between 2016 and 2018.



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


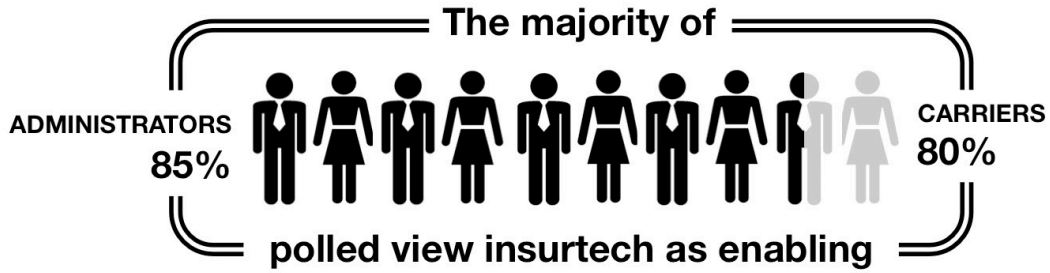


Larger administrators tend to be more involved with insurtech than their mid-sized and smaller peers

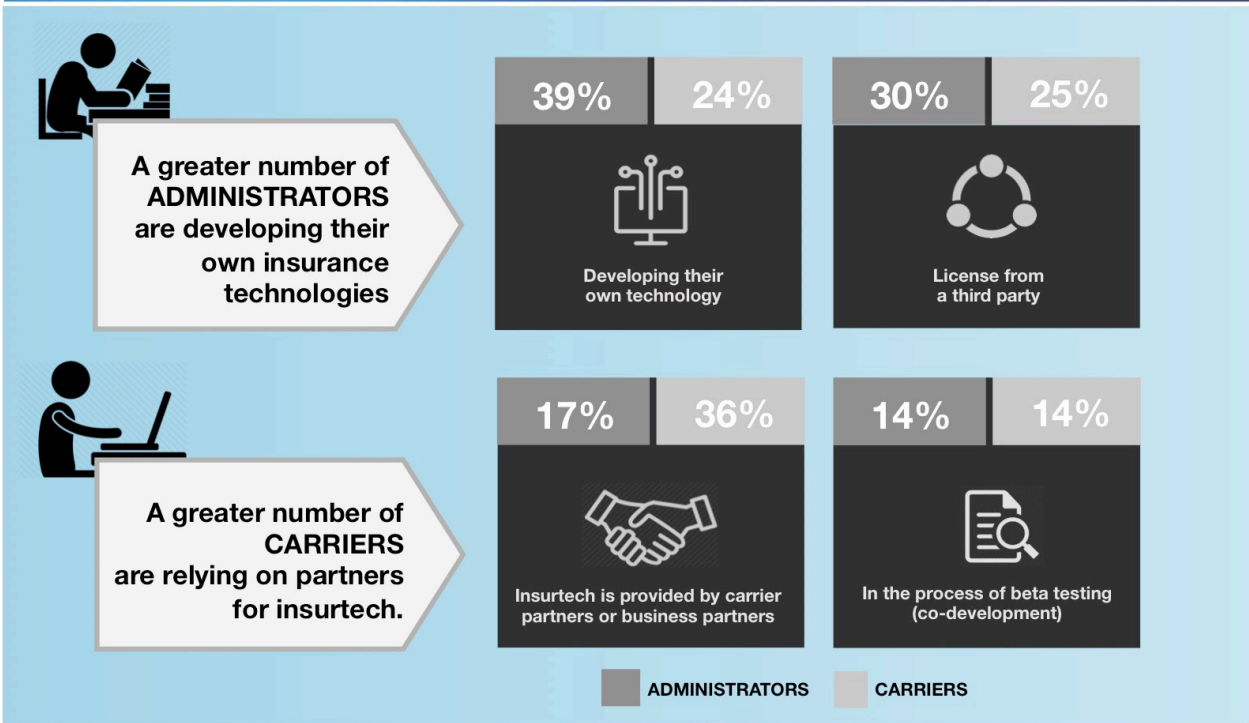




Administrators and carriers view **insurtech as enabling**

SOURCE OF INSURANCE TECHNOLOGIES



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



Administrators reported marginal increase in cyber take-up rates in 2018 

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

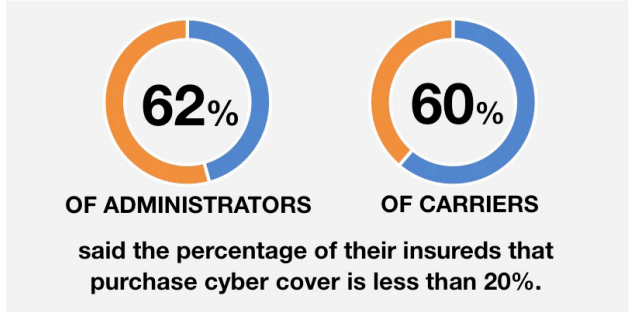
11% to 20%

21% to 30%

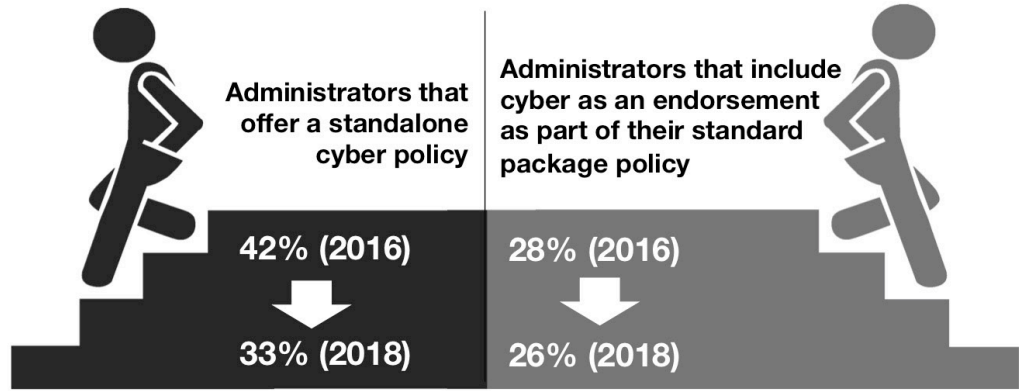
and greater than 50%

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

 Still, there is room to grow for cyber insurance.



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





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 findings 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.



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.



SPONSOR: LIVE OAK BANK



LIVE OAK BANK

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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.



SPONSOR: NETRATE SYSTEMS

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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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