TARGET MARKETS

Program Administrators Association

The TMPAA State of Program Business 2014

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Introduction and Executive Summary

Is the program space a good space to be in? How is it growing relative to the commercial insurance business? Are program administrators and carriers in sync when it comes to their views on key issues, such as recruitment, training, compensation, marketing, and use of social media? What are the challenges faced by the industry? These are some of the major questions that ***The TMPAA State of Program Business Study 2014*** answers.

In 2011, the Target Markets Program Administrators Association (TMPAA) launched the TMPAA State of Program Business Study to document the size of the program business. Since then, the survey has expanded to provide the program industry with a wealth of information on trends of the dynamics in the program business market.

A consistent finding of the TMPAA surveys was that program business is thriving despite the overall soft market for property and casualty insurance. With positive results in terms of premiums administered, renewal rates, and net revenue, administrators expressed optimism about the current state and the future of program business.

The 2013 survey identified the program business distribution strategy as the fastest growing segment of the commercial insurance market. The TMPAA survey estimated that program administrators generated nearly $27.4 billion of annual premium revenue in 2012, up from $24.7 billion in 2011.

To assist its nearly 400 members in conducting their businesses more efficiently with greater proficiency and profitability, the TMPAA conducted the fourth leg of the survey in 2014. This year's study presents 2013 business results.

With 181 program administrator and 45 carrier responses, the 2014 survey delves into yet another interesting facet of program business – the compensation and recruitment of underwriting professionals. It also collected new data on marketing expenditures and the use of social media by TMPAA members.

This year's survey also features interviews with a program administrator, a carrier, and a mergers and acquisitions expert which are aimed at offering comments on the poll's most significant findings.

As with the first three surveys, the research was conducted in tandem with Advisen Ltd., a global provider of information and analytical tools for risk managers and the commercial insurance industry. The production and publication of the benchmarking report was sponsored by Allied World Assurance Company, Berkley Custom Insurance Managers, The Chubb Group of Insurance Companies, Fireman's Fund Insurance Company, Ironshore, and QBE North America – members of the TMPAA.

The question topics for the 2014 survey were designed and reviewed by a committee of TMPAA member Program Administrators and Carriers, the TMPAA Board, Advisen and the New Street Group (TMPAA Special Consultant for the Program Business Study).

Advisen conducted an online survey of TMPAA members between 12 June 2014 and 26 August 2014. ***The TMPAA State of Program Business Study 2014*** survey examined both program administrators and program insurance carriers to present a comparative analysis of their views.

Key Findings

Overall

- Program administration continues to be a growing and vibrant market. Many administrators reported growth in their book in a challenging market place. They also remain optimistic about the future of the program space.
- It is important to note that between 2010 and 2013, an analysis of survey results shows that the rate of growth is increasing, albeit at a decreasing rate.
- A closer look at recruitment and training trends in the program space shows that hiring and retaining qualified personnel continues to be a major challenge. Responses indicate that administrators are boosting their training programs to better support the needs of both new and experienced underwriters.
- Players in the program administration business continue to defy the increasing trend toward usage of social media as a marketing platform. Survey responses show that administrators do not see social media as an effective marketing tool.
- Program administration is a large business at $30.1 billion in premiums in 2013 – roughly one in ten of the dollars spent on commercial property/casualty insurance today. The estimated size of the market rose 9.8 percent from $27.4 billion in premiums in 2012.
- Program business is growing more quickly than the overall commercial insurance marketplace. While the size of program business rose 9.8 percent, the growth in direct premiums written for commercial lines increased by only 4.6 percent.
- A comparison of 2014 Administrator responses to 2013 responses showed an average of 3.1 percent growth in the number of programs.
- ***The TMPAA State of Program Business Study 2014*** found that the estimated number of confirmed organizations in the United States that meet the definition of program administrator remain unchanged. The estimated number of administrators remained constant at 1,000 in 2014.

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

As program administrators and carriers work together, it is important to have an alignment of views and interests. A comparative analysis of administrators' and insurers' views on key topics revealed interesting insight on social media strategies, recruitment, compensation practices, and challenges faced by program administrators. Interestingly, practices may not require that alignment.

Social Media Strategy

Administrators and insurers do not differ much in terms of social media channels used. The difference lies in the purposes they use social media for. It is important to note that for administrators polled, social media is not seen as an effective medium, especially for sales and marketing purposes. This view may influence their actions.

- Among administrators polled, the top use for social media is to market products or services. For carriers, the top use of social media is to obtain market intelligence.
- In measuring the value of social media, administrators use traffic, views, and number of visits. Carriers, on the other hand, rely heavily on visits and quality of comments to measure that value of social media.

- For both administrators and carriers, LinkedIn and Facebook are the most popular social media channels.
- More than half of the administrators surveyed have company pages on LinkedIn. About the same percentage of insurers also have a presence on LinkedIn.
- Only a fifth of both administrators and carriers manage any industry-related Groups on LinkedIn.
- Sixty-nine percent of carriers polled report that most of their employees have LinkedIn profiles. This compares to 44 percent for administrators.
- Sixty-five percent of administrators polled designate a staff to monitor and maintain their social media accounts. This compares to 54 percent for carriers.

Recruitment Trends

Administrators and carriers were asked about their recruitment and training practices. A review of the minimum education and credentials required of prospective underwriters show similarities and differences between administrators and carriers.

- Responses show that more than a fifth of program administrators are willing to hire high school graduates and 13 percent are willing to hire those with an associates' degree, indicating a low threshold for underwriter qualifications. Still, 59 percent of administrators polled seek bachelor's degree holders at the minimum, while only 2 percent require degrees in Insurance, Risk Management or Actuarial Science. Compared with program administrators who participated in this survey, insurers polled seem to have a higher education threshold as 82 percent of the respondents seek those with a bachelor's degree at the minimum. Only 9 percent say they will hire high school graduates, while another 9 percent say they will hire associate degree holders. None of them indicated interest in hiring those who graduated with degrees in Insurance, Risk Management or Actuarial Science.
- Interestingly, advanced degrees do not seem to be rewarded. Seventy-six percent of administrators surveyed do not require graduate education for their underwriters. Fifteen percent of the respondents prefer MBA holders and will pay more, while 8 percent say they prefer MBA holders, but will not pay more. For carriers, 62 percent require graduate education for their applicants. Twenty-five percent of the respondents prefer MBA degree holders and are willing to pay more, while 13 percent prefer MBA degree holders, but will not pay extra.
- Nearly half of the administrators polled do not require their applicants to have professional designations. Thirty-six percent say they prefer underwriters with professional designations and will pay more, while 21 percent prefer underwriters to have professional designations, but will not pay more. In the case of insurers, half of those polled prefer underwriters with professional designations and are willing to pay more. Thirty-seven percent of the respondents do not require their applicants to have professional designations, while 13 percent prefer underwriters with professional designations, but will not pay extra.
- A review of recruitment practices show that program administrators rely heavily on referrals when recruiting underwriters. Next on their list are Internet job sites. This is the case whether hiring new underwriters or experienced underwriters. Unlike administrators, carriers rely heavily on college career fairs when hiring underwriters. Next on their list are referrals and Internet job sites.

Compensation Practices

Responses to a series of questions on compensation practices reveal that insurers pay more than administrators do for both starting and experienced underwriters.

- In terms of annual compensation paid to starting underwriters, insurers polled pay more than administrators. Thirty-seven percent of administrators polled pay an annual compensation (base + bonus) of $35,000 to $44,999 to starting underwriters, while 33 percent pay $45,000 to $54,999. Nine percent pay $55,000 to $64,999, while only 9 percent pay more than $65,000. The remaining 15 percent pay less than $34,999 annually. In the case of insurers, 36 percent pay an annual compensation (base + bonus) of $45,000 to $54,999 to starting underwriters, while 27 percent said they pay $35,000 to $44,999. Another 27 percent pay $55,000 to $64,999, while only 9 percent pay less than $25,000 annually. None of them reported paying more than $65,000.
- Interestingly, 63 percent of insurers and 47 percent of administrators polled pay the same or higher amount than the $45,000 average starting salary for 2013 college graduates identified in a survey conducted by the National Association of Colleges and Employers (NACE).
- Insurers also pay more for experienced underwriters. For underwriter with five years of experience, 46 percent of insurers polled pay $75,000 to $84,999 to underwriters with five years of experience. Twenty-seven percent pay $55,000 to $64,999. Another 27 percent pay $65,000 to $74,999. Among administrators surveyed, 26 percent pay $55,000 to $64,999, 24 percent pay $65,000 to $74,999, 17 percent pay $75,000 to $84,999, and 12 percent pay more than $85,000. Seventeen percent pay $45,000 to 54,999, while 4 percent pay less than $45,000.
- The majority of administrators polled provide their underwriters with health and life insurance. Most of them also offer a 401k. All carriers polled reported providing their underwriters with health and life insurance. Most of them also offer a 401k.

Challenges Faced by the Program Business

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

- As with the previous survey, administrators identified the reluctance of carriers to do start-ups and write new program business as a key challenge. Technology ranked second in terms of challenges identified by administrators. Administrators also identified the lack of commitment from carriers as a key issue. Other top issues identified were attracting and retaining qualified personnel, the soft market, and uninformed/irresponsible competition.
- Asked what could be done to respond to the challenges they identified, administrators said there is a need to introduce new and innovative programs. They also pointed to the importance of strengthening carrier relationships, boosting employee training programs, investing in technology, and hiring talented employees.
- Like the program administrators, carriers were also asked about what they perceive to be the major issues and challenges facing the industry. Technology, which was ranked second by administrators in terms of top issues facing the industry, was identified by carrier respondents as the most important issue encountered by the program space. Other top issues identified were distribution, data management, and program administrator consolidation.

- Asked how the challenges identified can be solved, the top response given was "managing pricing." As with the administrator respondents, carriers polled also mentioned the need to invest in technology. They also highlighted the importance of data management and gathering intelligence.

Future of the Program Business

Administrators and insurers are in sync when it comes to their views of the program business. Both groups see a bright future for the program space. They believe it will continue to be a strong market regardless of economic conditions.

Program Administrators

Program Administrator Information

- The survey had a larger proportion of big respondents this year compared to the previous survey.
- The majority of program administrators surveyed describe themselves as managing general underwriters and managing general agents.
- In terms of ownership, majority are independents.
- Asked about their underwriting focus, nearly 70 percent of administrators polled reported focusing on commercial lines.

Program Business Continues to Report Solid Performance

- Administrators continued to report solid performance of the program business. The number of respondents who reported increases in premium volume rose from 52 percent in 2010 to 72 percent in 2011 to 82 percent in 2012. While the number of administrators who reported increases remained at 82 percent in 2013, those who reported increases of more than 25 percent rose from 14 percent in 2012 to 17 percent in 2013. Thirty-three percent of respondents recorded increases of between 1 and 10 percent, while 32 percent saw increases of between 10 and 25 percent. Twelve percent of the respondents say their premiums declined, while the remaining 5 percent reported no change. This trend reflects the continuous above average performance of the program business amid the soft market that persisted for the property and casualty insurance industry.
- As with the previous three surveys, administrators polled also continued to report a high renewal rate of 85 percent.

M&A Trends

- Fourteen percent of the administrators polled say their firms were sold in the past three years. This is significantly higher compared to only 7 percent in the 2013 survey. A greater number of smaller firms or those with revenue below $20 million report being sold.
- The number of administrators looking to sell anytime soon increased from 10 percent in the previous survey to 16 percent in the 2014 survey. As would be expected, the smaller firms exhibited a greater propensity to sell.
- The number of administrators looking to acquire other firms anytime soon dropped from 53 percent in the previous survey to 43 percent in the 2014 poll. As would be expected, the larger firms exhibited a greater tendency to acquire other program administrators.

Carrier Change

- Forty-five percent of the administrators surveyed reported changing a carrier in the past three years.
- Twenty-seven percent of those polled said they changed carriers owing to differences with underwriting guidelines and pricing, while 19 percent attributed the change to company rating downgrade or demise. Eleven percent said they changed carriers because of territorial expansion, while 10 percent said company non-renewed program. Of the 33 percent that responded “Others,” five administrators said the company was sold. Other reasons given were having additional carriers, leadership change, and capacity limitation, among other reasons.

Services Offered by Size of Administrator

- In reviewing whether the services provided vary significantly by the size of the administrator, the survey found that underwriting, marketing, policy issuance, and technology services tend to be provided in-house across all administrator sizes. As with the previous survey, we found that mid-sized and larger firms tend to offer actuarial, claims administration, and safety and loss prevention services in-house.

Social Media Strategy

- Nearly 70 percent of the respondents said they do not have a written social media strategy.
- LinkedIn is seen by administrators as the most effective social media site. Next on their list in terms of effectiveness is Facebook.
- More firms with revenue over $75 million tend to have company profiles on LinkedIn.
- Asked what makes their social media program useful, 21 percent of the administrators polled say they do not find it successful or effective. Some mentioned the difficulty of measuring its success. On the other hand, some acknowledged its usefulness in monitoring and providing updates.
- Social media remains as the least popular marketing and sales tool among administrators polled. As with the previous survey, many of the program administrators surveyed allocate a greater share of their marketing and sales promotion expenses to face to face meetings, which they believe is still the most effective means of promoting their business. Social media is seen as the least effective.

Recruitment and Training Trends

- In looking at underwriter training programs, 74 percent of those polled say they have an underwriter training program that enables them to promote from within.
- Fifty-five percent of respondents believe that insurance carriers could better support the training needs of program underwriters. When asked how, some of the responses given were webinars, and in-house and on-site training.
- Lack of experience and knowledge, location, and compensation were identified as the top challenges faced by administrators in hiring new talent.
- The top colleges where respondent administrators recruit are California State University, Olivet College, Florida State University, Rutgers University, University of North Texas, University of Nevada Reno, and Duke University.

Insurers

Program Information

- Almost all insurers polled have at least two current programs.
- Nearly half of the carriers surveyed insure 11 to 30 distinct programs. Thirty-six percent of the respondents insure up to 10 distinct programs, 14 percent insure more than 50 distinct programs, while 7 percent insure 31 to 50 distinct programs.
- The average number of programs managed by each of the respondents' program underwriters is 3.
- Half of the carriers polled say their total gross premiums from programs is $50 to $100 million, 33 percent say $100 million above, while the remaining 17 percent say $50 million and below.
- In terms of percentage of total number of programs, 55 percent come from wholesale brokers/agencies, while 45 percent come from retail brokers/agencies.

Industry Projection

- Asked about their program strategy in the next three years, the majority of carriers polled said they plan to expand. They also plan to add programs over that period.
- Eighty-seven percent of the respondents said they anticipate increasing the amount of premium written in the next three years, while the remaining 13 percent anticipate no change.
- Asked about their views on the impact of the softening P&C market conditions on the growth potential of the program business, 77 percent of the insurers polled say that it will be a negative for program business growth, while 8 percent believe it won't have any impact on program business. Fifteen percent say they don't know.
- In terms of lines of business that they consider as best fits for programs, the top three answers given were Professional Liability, Package, and Liability. On the other hand, the worst fits mentioned were Workers Compensation, Life & Health, and Personal Lines.
- The majority of insurers surveyed say program administrators apply more sophisticated or effective techniques for risk selection, pricing and data collection compared to five years ago.
- Carriers polled identified risk selection and data management as key elements of program administration that need improvement.
- All carriers surveyed prefer direct contact with program administrators rather than going through intermediaries.
- Sixty percent of the respondents say they tend to take programs net, while the remaining 40 percent said they use reinsurance. Of those who reported using reinsurance, 67 percent said it is structured by the program, while 33 percent said it is structured as part of a corporate program.

Marketing

- In terms of the forms of marketing support provided for existing struggling programs, existing successful programs, and new programs, an analysis of responses shows that various forms of marketing support are provided across all program types whether they are new, successful, or struggling. When it comes to trade shows, sales promotion, advertising and creating mail campaigns, greater emphasis is given to existing successful programs. While existing struggling programs receive various forms of marketing support, they are given slightly lesser attention when it comes to trade shows, advertising, sales promotion materials, mail campaigns, e-mail campaigns, and building websites. They do, however, receive greater attention when it comes to market research and use of customer relationship management (CRM) tools.

Policies on Outsourcing Services

- Sixty-two percent of respondents allow program administrators to administer or manage claims either in-house or through a TPA. Thirty-one percent don't allow this, while 8 percent say they don't know.
- The majority of respondents polled allow the outsourcing of loss prevention and other services.

Program Administrators

Demographics

One hundred eighty-one program administrators participated in ***The TMPAA State of Program Business Study 2014.*** This compares to 214 participants from 198 distinct companies in the 2013 survey. There were 190 participants in 2012 survey and 92 respondents during the inaugural survey in 2011.

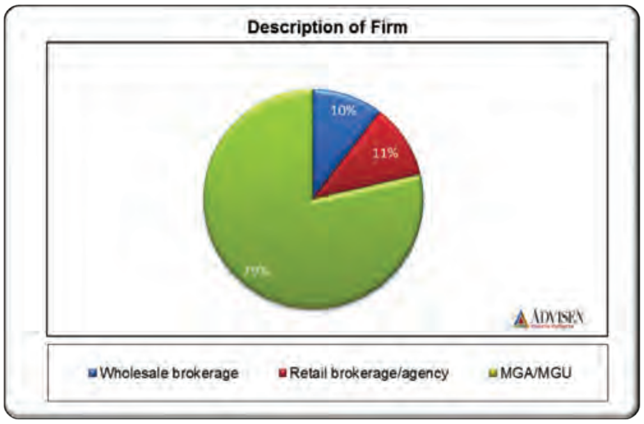
Respondents vary in terms of number of employees, number of programs administered, revenues, and gross premiums written. These differences are key to understanding specific details about the survey participants' views and practices.

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

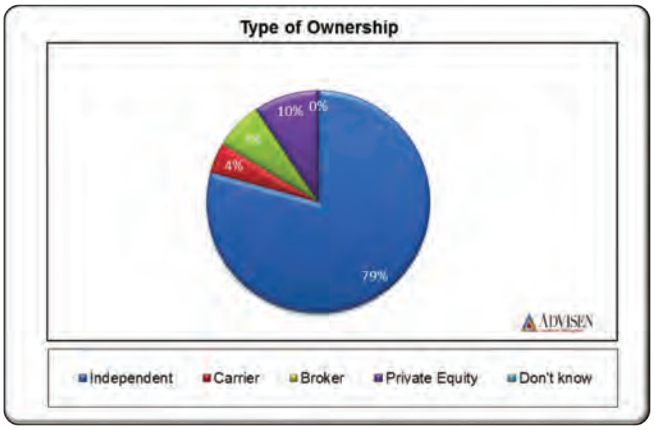
As with the previous surveys, the majority of program administrators polled for the 2014 survey are from relatively small firms with less than 60 employees. The market continues to reflect the 70/30 rule: about 70 percent of administrators have fewer than 60 employees while firms with more than 60 employees account for about 30 percent of the market.

Program Administrator Information

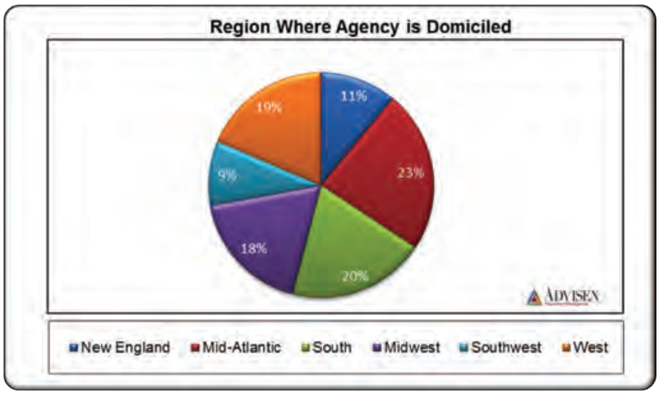
The majority of program administrators surveyed describe themselves as managing general underwriters and managing general agents.



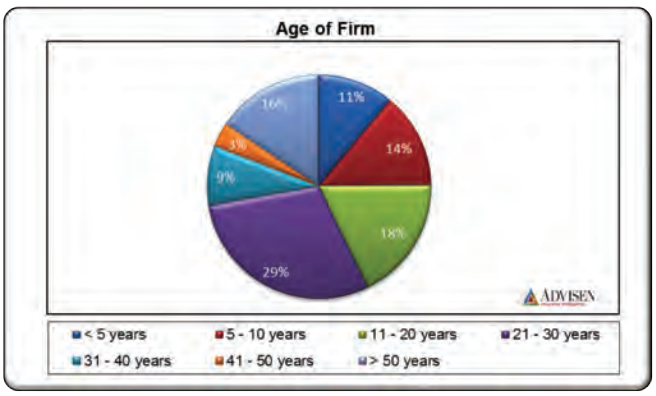
As with the previous survey, the majority of respondents reported being owned by independent companies. Ten percent say they are owned by private equity firms, 7 percent by brokers, and 4 percent by carriers.



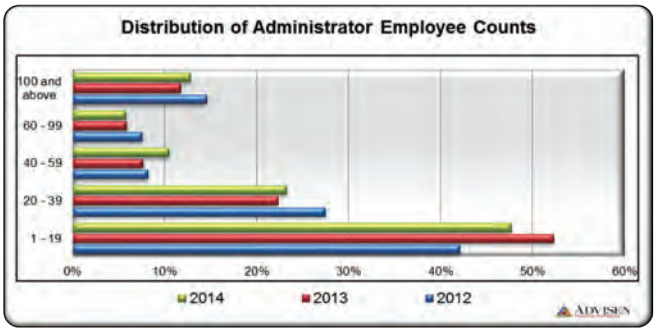
Survey respondents come from six regions. Nearly a fourth of the participants are from the Mid-Atlantic, while a fifth hail from the South. Nineteen percent come from the West, 18 percent from the Midwest, 11 percent from New England, and 9 percent from the Southwest.



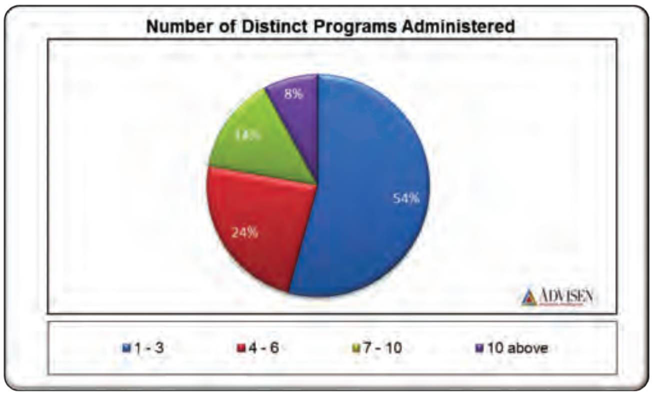
In terms of longevity in the program space, nearly a third of the participants have been in the business for 21 to 30 years, 18 percent have been administrators for 11 to 20 years, 9 percent have been in the program space for 31 to 40 years, and 3 percent have been in existence for 41 to 50 years. Old timers or those in the business for more than 50 years represent 16 percent of the respondents, while relatively new firms who have been in the business for less than a decade represent 25 percent of the respondents.



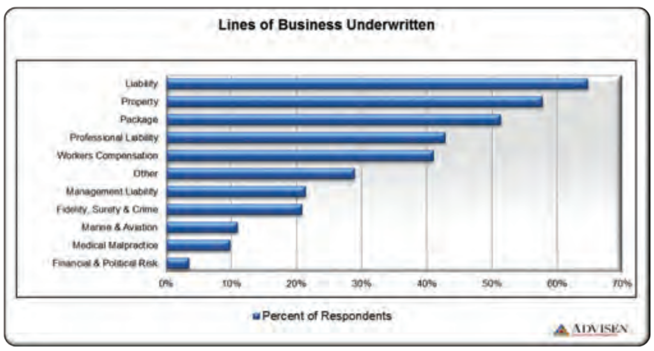
While the number of respondents with only 1 to 19 employees is lower than the previous survey and those with more than 100 employees increased slightly, the employee picture remains almost the same. The majority of program administrators polled for the 2014 survey are from relatively small firms with less than 60 employees.



As with the previous surveys, a majority of respondents come from small firms in terms of the number of distinct programs they administer. More than half of the respondents administer only one to three distinct programs, while one-fourth administer 4 to 6 programs. Fourteen percent administer 7 to 10 programs, while the remaining 8 percent administer more than 10 programs.



Asked about the lines of business they underwrite, respondents ranked the following as the top responses: Liability, Property, Package, Professional Liability, and Workers Compensation.



Size of the Program Administration Market

Program business in the U.S. is pegged at $30.1 billion in premiums in 2013 – a 9.8-percent increase from the $27.4 billion estimated in 2012.

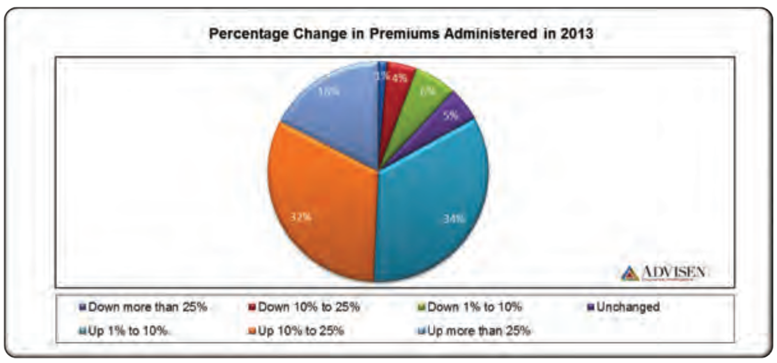
According to the Insurance Institute of America's 2013 – Year End Results, commercial lines premiums grew by 4.0 percent in 2013, down from 5.5 percent in 2012. This compares to 5.3 percent growth for insurers writing predominantly personal lines, up from 3.5 percent a year earlier.

We estimated the 9.8 percent increase based on several indicators of the growth of the industry. The average growth in premiums reported by survey respondents was 12.4 percent this year compared to 11.5 percent the prior year. As this number seems a bit high, we sought to balance it with an independent estimate. Since the number of programs increased by 3.1 percent and average premiums increased by 4.0 percent, the market could have grown by 7.2 percent (1.04*1.031). We averaged the 7.2 percent with the 12.4 percent and came up with an estimate of 9.8 percent.

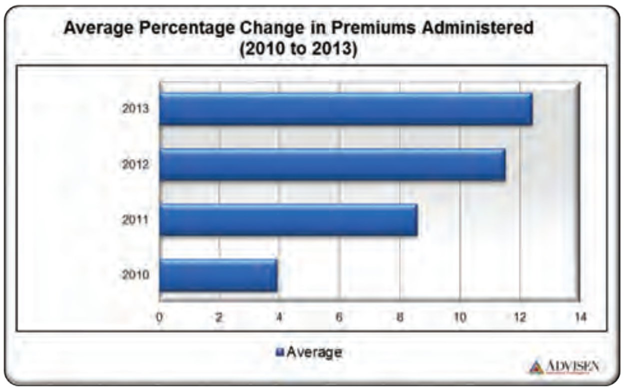
In terms of programs administered, there is an estimated 2,140 individual programs in 2013, an increase of 3.1 percent from the 2,075 individual programs estimated in 2012.

Program Business Continues Solid Performance, Growing at an Increasing Rate

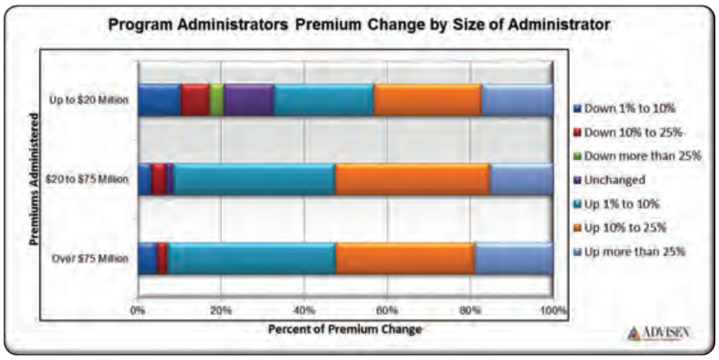
Program business continued to post upbeat figures, as data from respondent administrators shows. The number of administrators who reported increases rose from 52 percent in 2010 to 72 percent in 2011 to 82 percent in 2012. While the number of administrators who reported increases remained at 82 percent in 2013, those who reported increases of more than 25 percent rose from 14 percent in 2012 to 17 percent in 2013. Thirty-three percent of respondents recorded increases of between 1 and 10 percent, while 32 percent saw increases of between 10 and 25 percent. Twelve percent of the respondents say their premiums declined, while the remaining 5 percent reported no change. This trend reflects the continuous above average performance of the program business amid the soft market that persisted for the property and casualty insurance industry.



It is important to note that between 2010 and 2013, an analysis of survey results shows that the rate of growth is increasing, albeit at a decreasing rate.

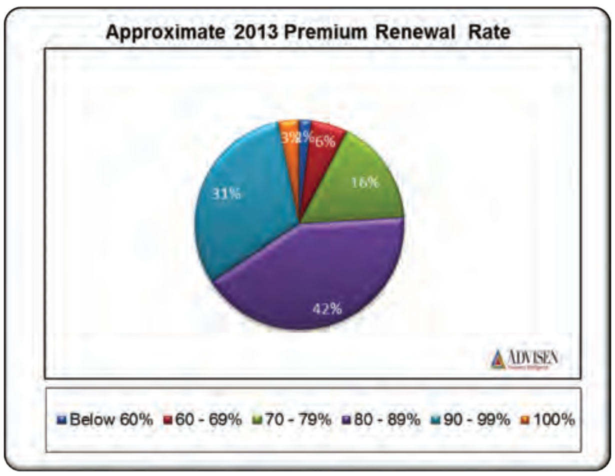


As with the previous survey, all premium brackets reported increases in premium, but those with over $75 million in premiums had the greatest proportion of respondents with increases. Ninety-three percent of respondents from this bracket reported increases, while only 7 percent saw declines. For the mid-sized firms, those with premiums of $20 to 75 million, 91 percent reported increases, 7 percent reported declines, while the remaining 2 percent did not report any changes. For smaller companies, 67 percent saw premiums increase, 12 percent reported no changes, while 17 percent reported declines.



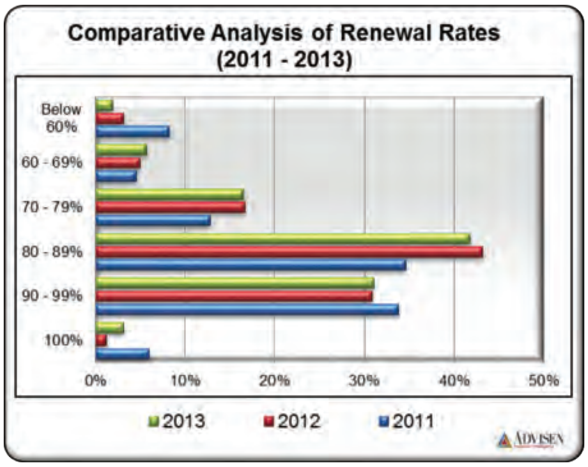
Renewal Rate

As with the previous three surveys, three-fourths of the administrators polled continued to enjoy high renewal rates of between 80 and 100 percent.

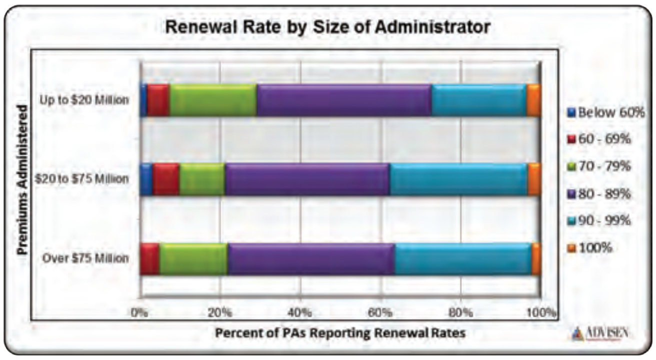


The average rate of renewals for 2013 is 85 percent, barely budging from the 84 percent recorded from 2010 to 2012.

Apart from the slight increase in the percentage of administrators reporting a 100 percent renewal rate, there were no other significant differences recorded in the renewal rates for 2012 and 2013.

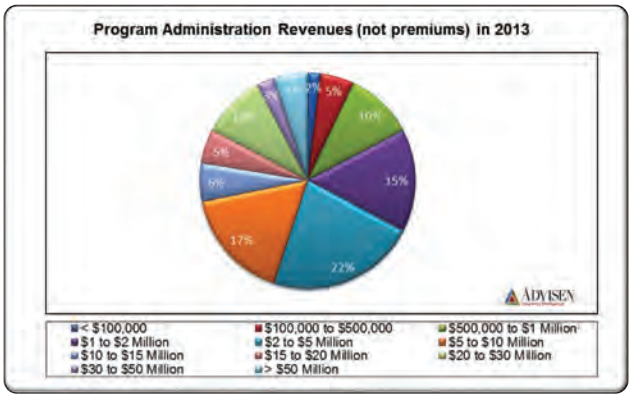


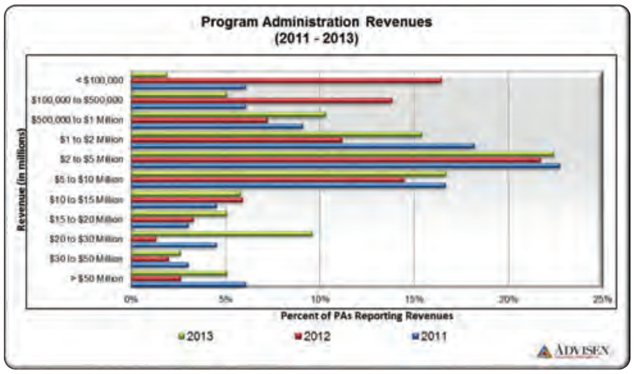
As with the previous survey, the larger firms reported higher renewal rates for 2013.



Revenue

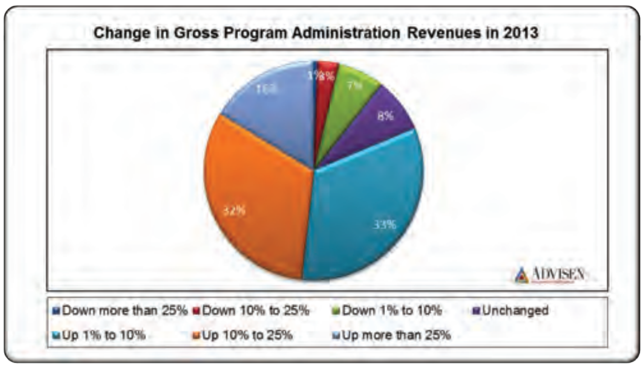
Fifty-four percent of program administrators polled are from small firms with gross program administration revenues of less than $5 million. This compares to 70 percent in the previous survey. The percentage of firms reporting revenues of between $5 million and $30 million increased from 25 percent in the previous survey to 38 percent in the 2014 survey. Those who reported revenues of more than $30 million also increased from 5 percent in the 2013 poll to 8 percent in 2014 survey.



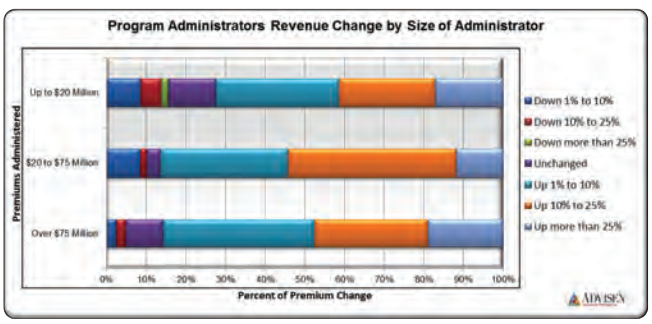


Eighty-nine percent of respondents reported increases in program administration gross revenues in 2013, compared to 76 percent in 2012. Eleven percent reported declines in 2013 – slightly lower than the 14 percent. Eight percent of respondents reported no changes, compared to 10 percent in the previous survey.

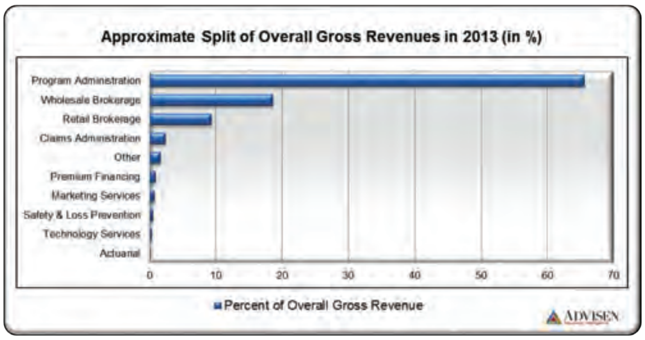
Of those who reported increases, 33 percent says program administration gross revenues rose 1 to 10 percent, 32 percent saw increases of between 10 to 25 percent, while 16 percent reported increases of more than 25 percent. Among those who reported declines, 7 percent says gross revenues dropped 1 to 10 percent, while 3 percent saw declines of between 10 and 25 percent. The remaining 1 percent reported declines of more than 25 percent.



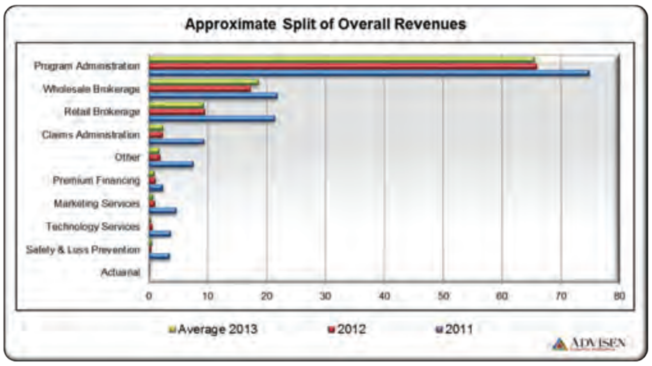
The larger firms fared better in terms of change in gross revenues.



As with the previous surveys, the biggest segment in terms of the approximate split of overall revenues was program administration. Wholesale brokerage and retail brokerage ranked second and third, respectively.

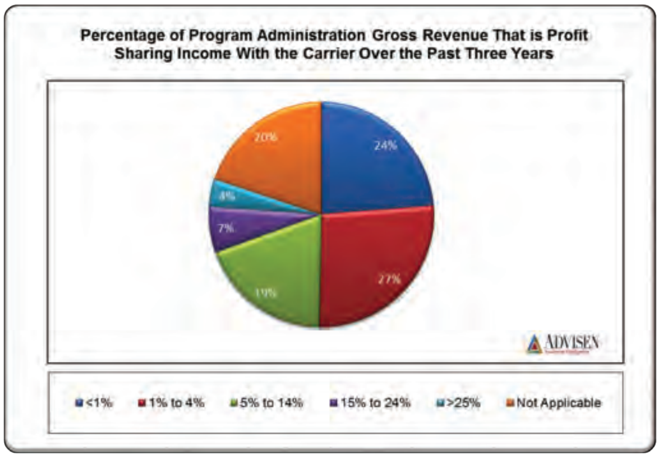


Interestingly, a comparison of 2011 and 2013 figures shows a decline in percentages in almost all revenue sources. The only exceptions are wholesale brokerage and safety and loss prevention which saw slight increases between 2012 and 2013.



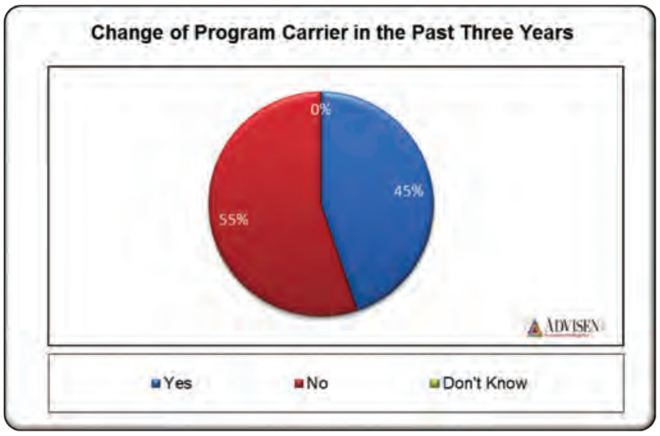
Profit sharing programs are among ways by which insurers align their interests with program administrators. If the program is profitable, both groups benefit from its success.

Responses to the question on the portion of gross revenue represented by profit sharing income with the carrier revealed increases in percentage. The percentage of administrators reporting profit sharing income of up to 1 percent dropped from 30 percent in 2012 to 24 percent in 2013. On the other hand, the percentage of those reporting profit sharing income of 1 percent to 4 percent rose from 24 percent to 27 percent. Those reporting profit sharing income of 5 to 14 percent also increased from 15 percent to 19 percent. Those who reported profit sharing income of 15 to 24 percent and more than 25 percent barely budged between 2012 and 2013. As with the previous survey, a fifth of the respondents said the question is not applicable to them.

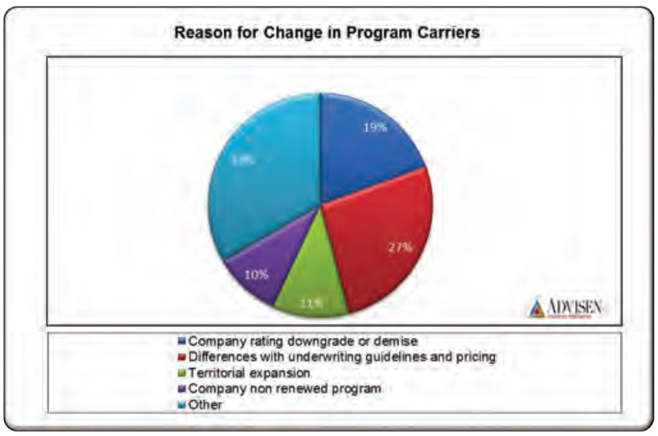


Carrier Change

Forty-five percent of the administrators surveyed reported changing a carrier in the past three years.

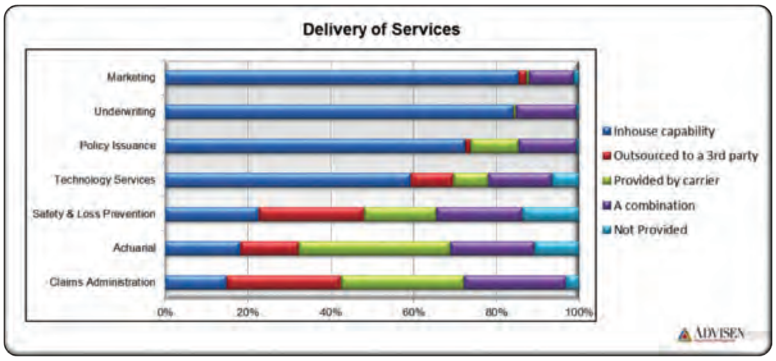


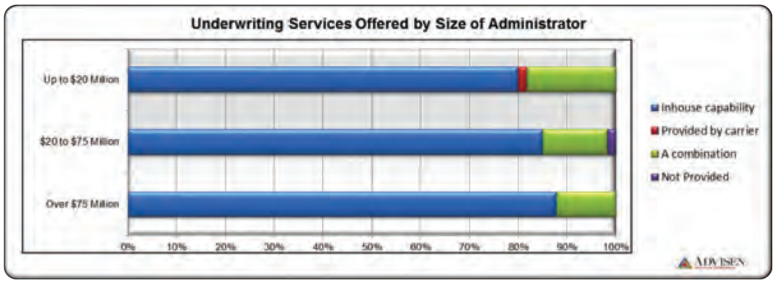
Twenty-seven percent of those polled said they changed carriers owing to differences with underwriting guidelines and pricing, while 19 percent attributed the change to company rating downgrade or demise. Eleven percent said they changed carriers because of territorial expansion, while 10 percent said company non-renewed program. Of the 33 percent that responded “Others,” five administrators said the company was sold. Other reasons given were having additional carriers, leadership change, and capacity limitation, among other reasons.

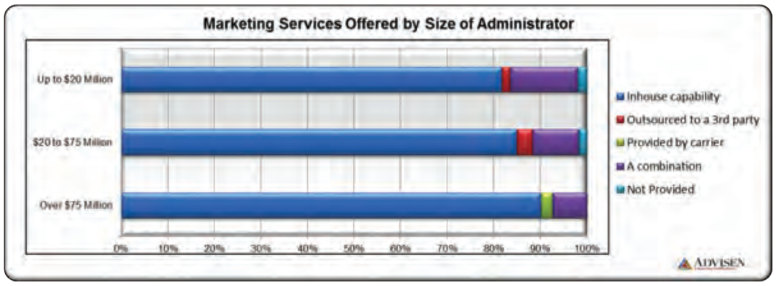


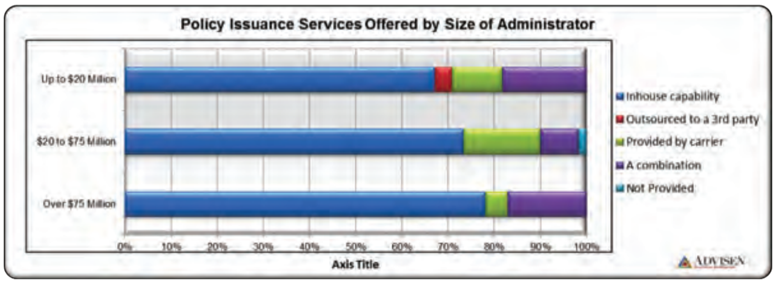
Services Offered by Size of Administrator

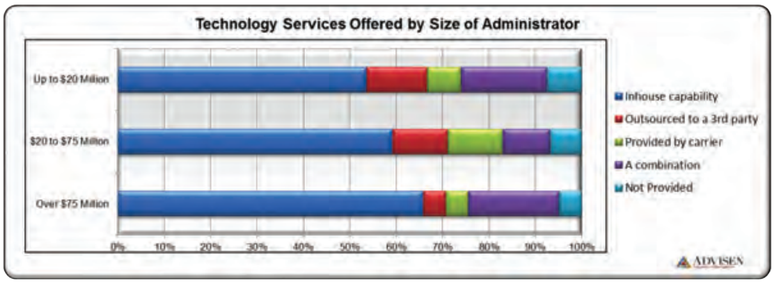
In reviewing whether the services provided vary significantly by the size of the administrator, the survey found that underwriting, marketing, policy issuance, and technology services tend to be provided in-house across all administrator sizes. As with the previous survey, we found that mid-sized and larger firms tend to offer actuarial, claims administration, and safety and loss prevention services in-house.

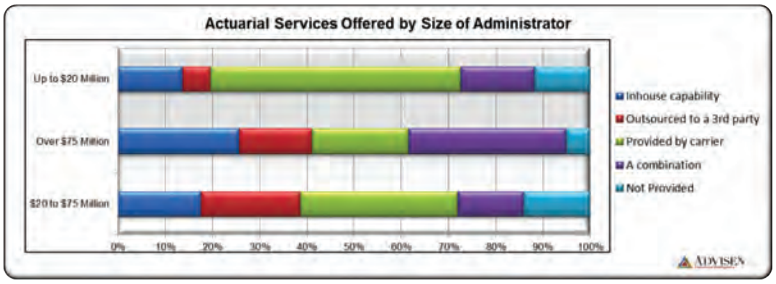


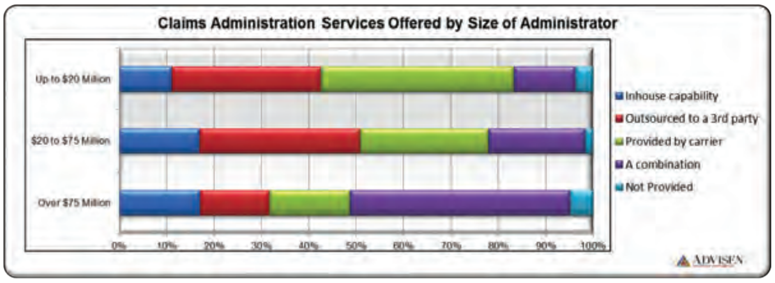


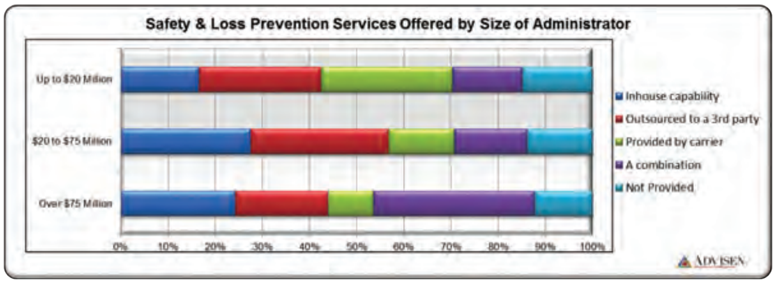












M&A Trends

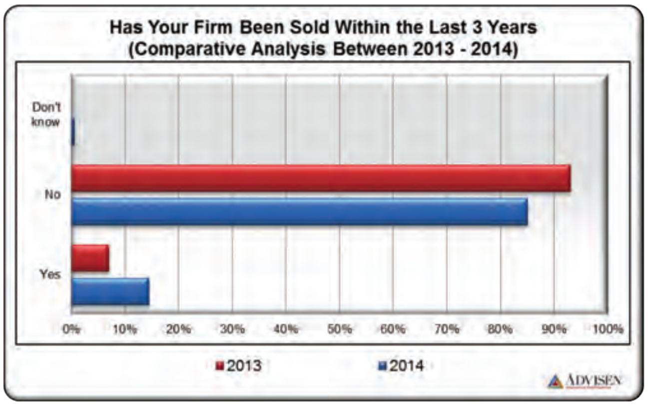
Amid the growth experienced by the program space, players are employing consolidation to boost potential revenues as well as to access new markets. In 2013, Swett & Crawford acquired the Southern Hospitality Underwriters of Georgia (SHU) in an effort to expand its specialized program business. SHU placed approximately $14.5 million in premium for 2012. That same year, program administrator NSM Insurance Group acquired Executive Liability Managers Insurance Brokers (ELM), a professional liability wholesale insurance brokerage. In January 2014, Edgewood Partners Insurance Center (EPIC) acquired certain assets of program specialist Altus Specialty Group (ASG).

Interestingly, the mergers and acquisitions picture in the program space continues to show a mismatch in supply and demand. While the past two surveys showed buyers outnumbering sellers, responses to the 2014 survey revealed an interesting change – the number of sellers increased, but the number of buyers declined.

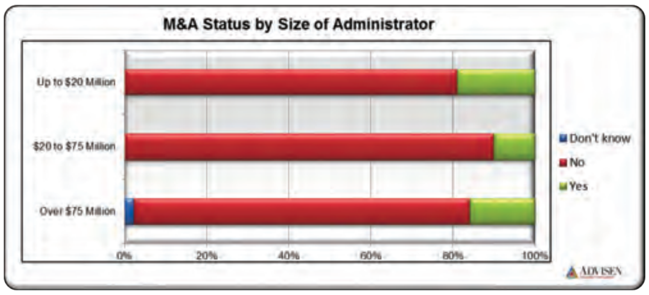
Offering insight on participants' responses to questions related to M&A in the program space, Kevin P. Donoghue, Managing Director of Mystic Capital Advisors Group, said he finds it surprising that there is a decline in demand because they have not seen demand decline. "Actually, demand this year is much higher than last year's," he said.

"If you take a step back to 2012, there was a meaningful event that took place in the market. The capital gains tax rate went up on January 1, 2013 so anyone that was thinking about selling in the 2012, 2013 and maybe 2014 range back then really pushed to sell in 2012 because of the increased capital gains tax rate. That had a rollover effect in 2013 in the sense that supply was drained up. 2013 was a slow year and it was more a function of 2012 and capital gains – something meaningful happening in the marketplace," the M&A expert said.

Fourteen percent of the administrators polled say their firms were sold in the past three years. This is significantly higher compared to only 7 percent in 2013.



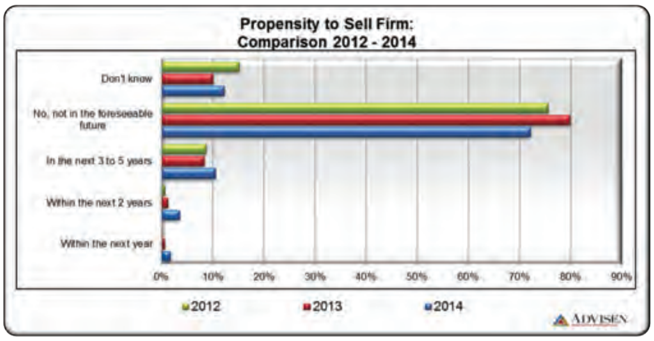
As would be expected, a greater number of smaller firms or those with revenue below $20 million report being sold.



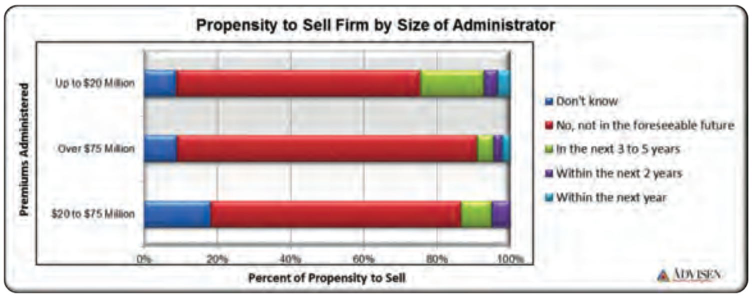
The number of administrators looking to sell anytime soon increased from 10 percent in the previous survey to 16 percent in the 2014 survey.

"So when acquisitions are driving growth both on the strategic and on the company side, we see in 2014 that the multiples that buyers are willing to pay sellers are up meaningfully and that is drawing sellers into the market," Mr. Donoghue explained.

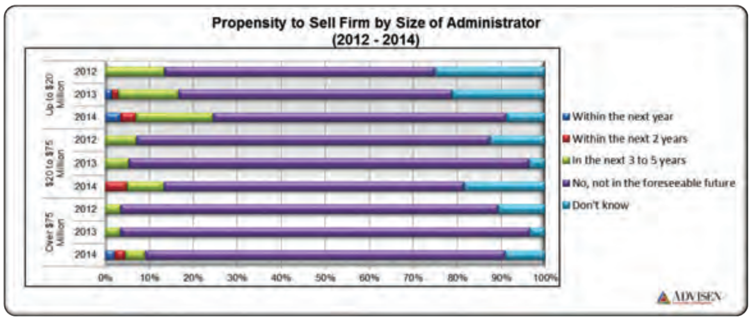
Asked about business drivers that could be driving administrators to sell, Mr. Donoghue said a major factor is the desire of some groups to broaden their offerings. “They’re buying different types of programs and building more and more specialties that they can offer to their retail distribution networks.”



As would be expected, the smaller firms exhibited a greater propensity to sell.

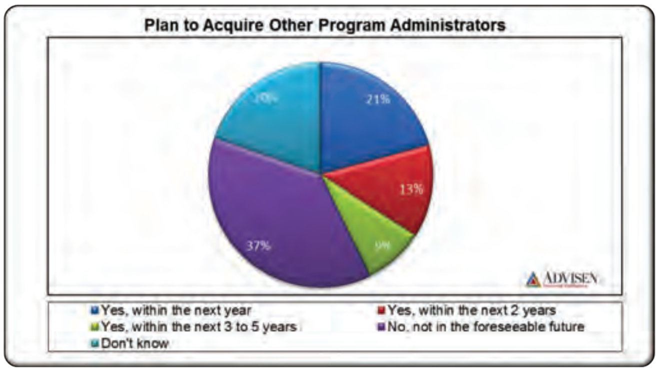


The chart below shows the increasing interest to sell, especially among smaller firms.



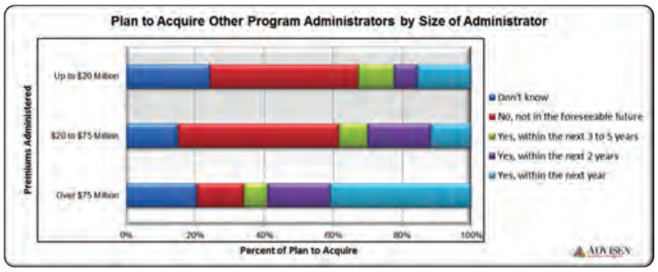
However, as the number of possible sellers are increasing, the number of administrators looking to acquire other firms anytime soon dropped from 53 percent in the previous survey to 43 percent in the 2014 poll.

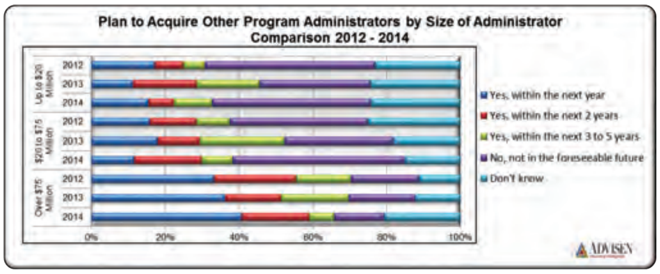
The number of administrators looking to acquire other firms anytime soon dropped from 53 percent in the previous survey to 43 percent in the 2014 poll.

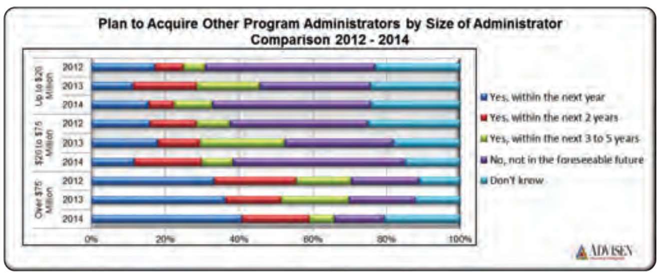


As would be expected, the larger firms exhibited a greater tendency to acquire other program administrators.

What types of organizations are buying? According to Mr. Donoghue, the large wholesale MGA groups like Swett & Crawford are buying smaller groups. "We also continue to see unique specialty companies like Houston International acquiring MGAs and program administrators," he said.



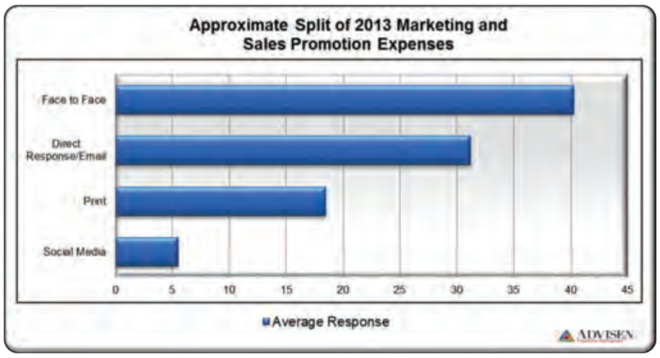




Marketing Practices

Consistent with the results of the previous survey, many of the program administrators surveyed allocate a greater share of their marketing and sales promotion expenses to face to face meetings, which they believe is still the most effective means of promoting their business. The least amount goes to social media which, in their view, is the least effective.

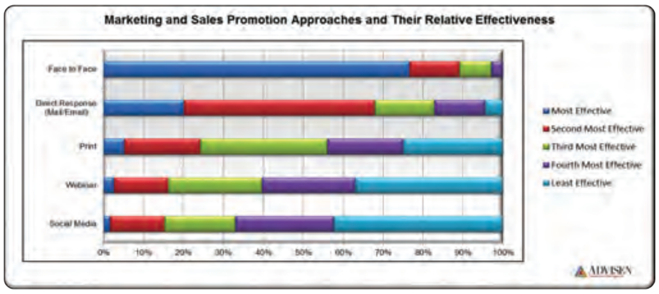
Commenting on the approximate split of marketing expenses, a number of respondents mentioned the importance they give to trade shows. One administrator polled said, “A large portion of our budget is for trade show representation, sponsorships, and program business sites.” Another respondent said that trade shows represent approximately 5 percent of his firm’s marketing budget.



One administrator polled says they do not use social media because it is “Overrated and does not drive sales whatsoever.” Another respondent said “We market to our producers, but not direct to clients. Social media is not effective in this case.”

Christopher Pesce, president of the Maritime Program Group, shares these administrators’ views and says the survey results accurately capture his thoughts on social media as a program administrator. “It is not a sales and marketing tool. We’re marketing our products to other retail insurance agents around the country. Social media is not the forum to find a retail insurance partner. I don’t think social media is a sales tool for a program administrator that’s not a retailer. But if it’s both, then it may be different. Social media is more of a communication piece for us.”

With these comments from administrators polled and interviewed, it is hardly surprising that social media is at the bottom of the list of marketing and sales promotion approaches when it comes to relative effectiveness.

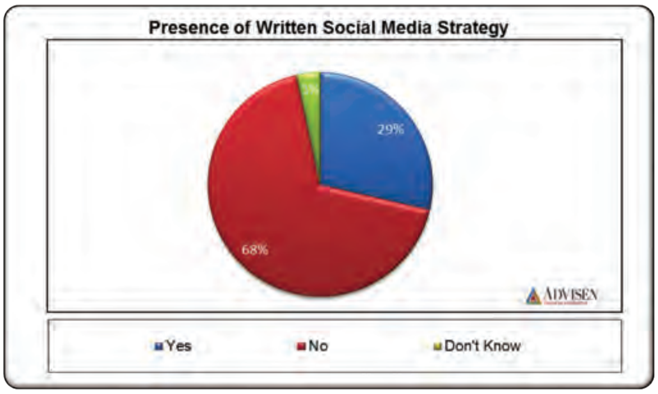


Social Media Strategy

Among industries, insurance has been one of the slowest in terms of uptake of new technology including social media. Even amid the emergence of the Internet, most insurance buyers still rely solely on face to face communication as evidenced by results of this survey.

One possible factor behind this is the belief that insurance is a people business that requires a personal touch. Players employ tens of thousands of agents and employees to build relationships with potential policyholders. This concept of sticking to the basics is shown by responses to the social media segment of the survey.

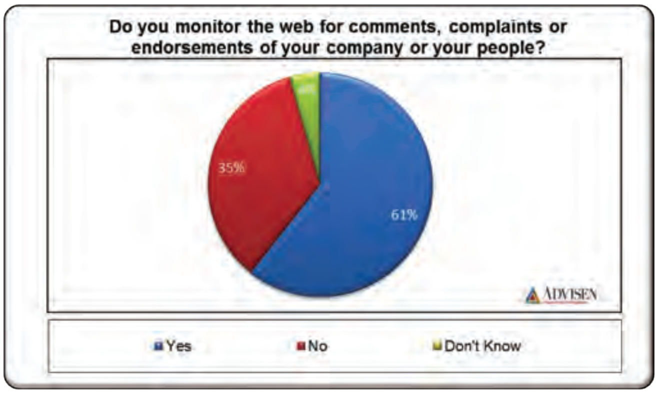
Not surprisingly, only 29 percent of the respondents have a written social media strategy.



Asked what makes their social media program useful, 21 percent of the administrators polled say they do not find it successful or effective. One respondent said, “I personally don’t think that it does anything other than keep us in the minds of our agents who occasionally will comment.” Another survey participant said “It is average in worth. We get a steady stream of traffic but not many sales. We get the most from Linked in for job candidates.” For another administrator, “It remains to be seen how tangible this activity is but it’s viewed as an important space to be active in.”

On the other hand, some acknowledged its usefulness in monitoring and providing updates. “Providing good content that our clients value. It always starts with education and knowledge,” one respondent said of the value of social media.

Sixty-one percent of respondents monitor the web for comments, complaints or endorsements of their companies.



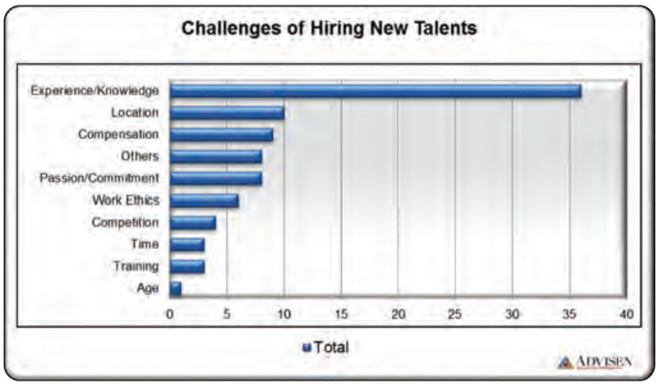
Only a fourth of those polled monitor what their employees are saying on the web.

Further information on administrators’ views on social media may be found on page 39 of this report. Their views are compared with those of insurer respondents.

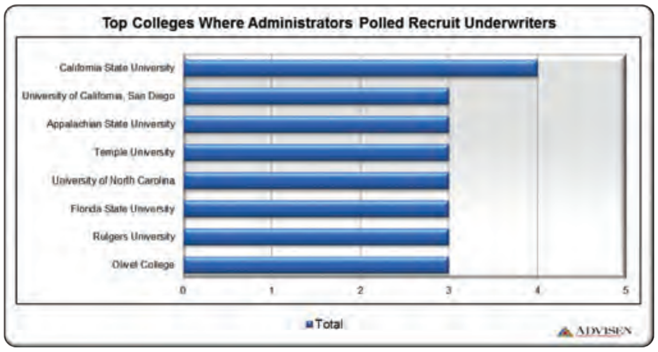
Recruitment and Training Trends

Finding and hiring the right person for the job is a huge challenge across all industries. In the past surveys, administrators consistently identified recruitment as a major challenge facing the industry. They pointed to the difficulty of attracting and retaining good people, especially in terms underwriting and actuarial expertise.

In the 2014 poll, respondents were asked about the challenges they encounter in hiring new talents. Lack of experience and knowledge was identified as the top issue in recruiting new personnel. A far second is location, followed by compensation. Also mentioned were the lack of passion and commitment, work ethics, competition, time, training, and age.



The top colleges where respondent administrators recruit are California State University, University of California San Diego, Appalachian State University, Temple University, University of North Carolina, Florida State University, Rutgers University, and Olivet College. Among other colleges mentioned were University of North Texas, University of Texas, University of Nevada Reno, Pennsylvania State University, and Duke University.



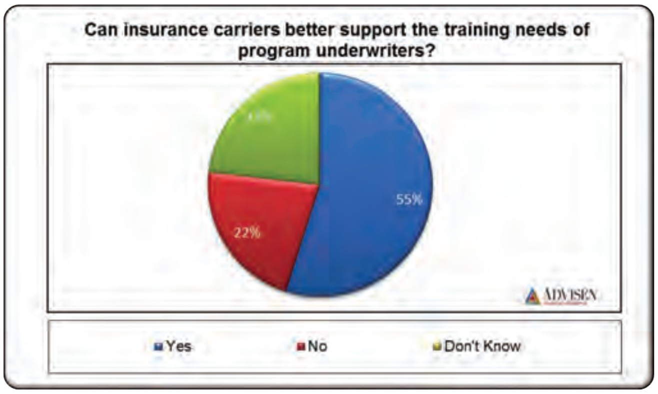
In evaluating prospective employees, more than half of the administrators polled say they check the social media pages of their candidates.

Closely related to the issue of hiring underwriters is training. In looking at underwriter training programs, 74 percent of those polled say they have an underwriter training program that enables them to promote from within.

Fifty-five percent of respondents believe that insurance carriers could better support the training needs of program underwriters. When asked how, some of the responses given were webinars, in-house and on-site training.

Commenting on the question, one survey participant said “Insurers are better financed and equipped to recruit and train through multiple divisions and departments. Our underwriters are hands on full-time and we do not have the budget to put someone through a prolonged training program. They need to contribute very quickly after hire date.” Another respondent said that this should be done “only if they (insurers) have experience in that specific line of business.”

On the other side of the fence are administrators who believe that training should be the sole domain of administrators. “Insurance carriers do not know how to train underwriters. That is why we train the carrier underwriters. Carriers teach underwriters to follow rules, but we need underwriters who can think,” one respondent said. Another administrator said that carriers are a good source of general underwriting knowledge and discipline. “However, the program manager will usually have a better understanding of their specialty business and related underwriting,” the respondent said.



***** Further information on administrators’ view on recruitment and training may be found on page 41 of this report. Their views are compared with those of insurer respondents. Compensation is also discussed on page 44.***

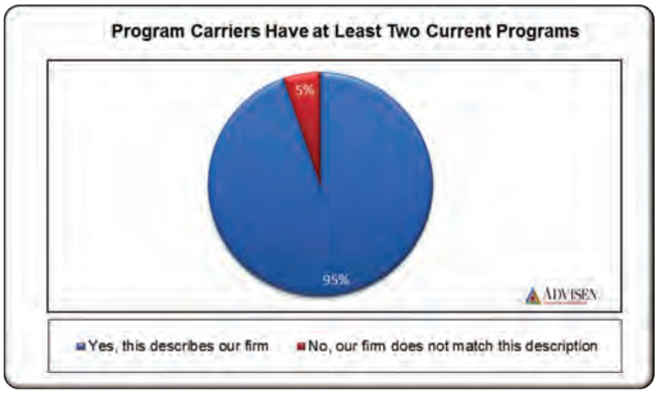
Insurers

Demographics

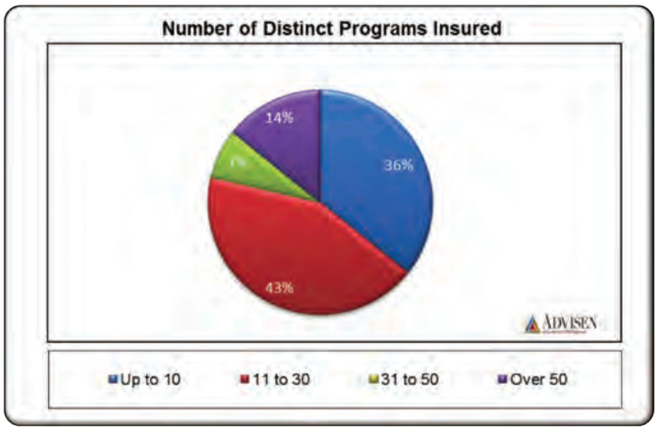
To give a carrier perspective, insurer members of the TMPAA were invited to participate in the survey. 45 insurers completed parts, if not all, of the sections in the questionnaire. This compares to 34 carrier respondents in 2011, and 43 participants for both 2012 and 2013.

Program Information

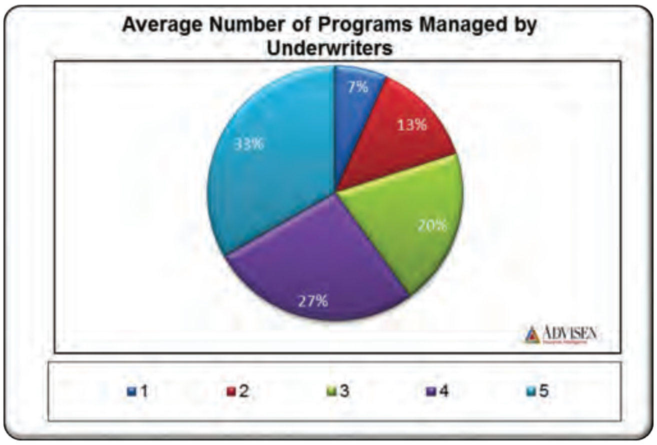
Almost all insurers polled have at least two current programs.



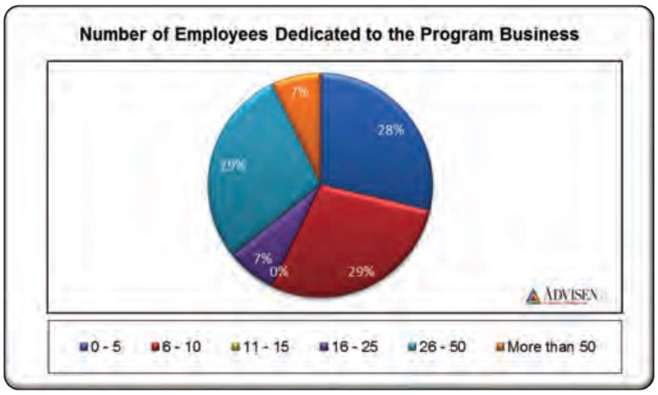
Nearly half of the carriers surveyed insure 11 to 30 distinct programs. Thirty-six percent of the respondents insure up to 10 distinct programs, 14 percent insure more than 50 distinct programs, while 7 percent insure 31 to 50 distinct programs.



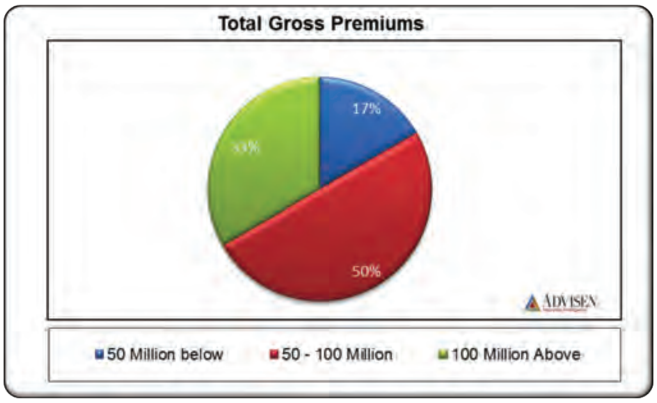
The average number of programs managed by each of the respondents' program underwriters is 3.



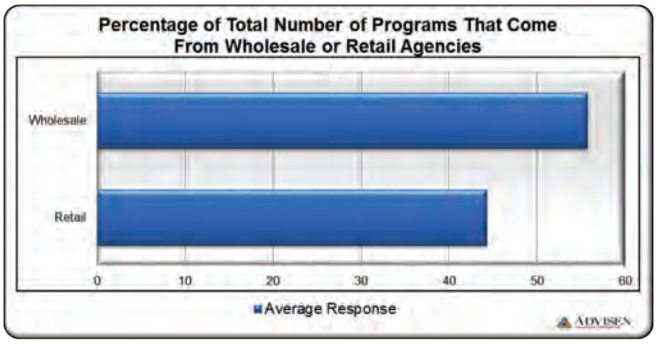
Fifty-seven percent of the carrier respondents have less than 10 persons dedicated to the program business. Thirty-six percent have 16 to 50 staff focused on the program business. Only 7 percent have more than 50 employees dedicated to the program business.



Half of the carriers polled say their total gross premiums from programs is $50 to $100 million, 33 percent say $100 million above, while the remaining 17 percent say $50 million and below.



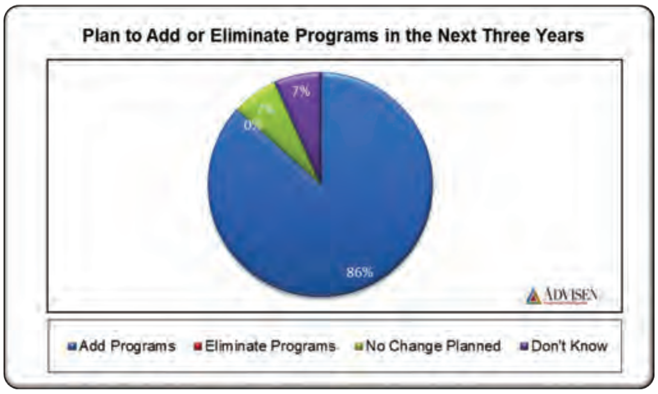
In terms of percentage of total number of programs, 55 percent come from wholesale brokers/agencies, while 45 percent come from retail brokers/agencies.



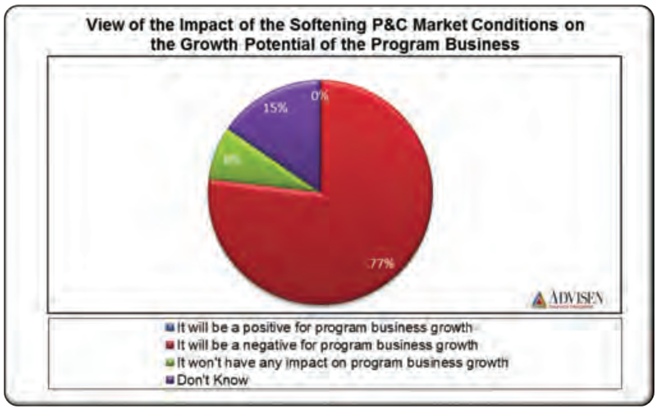
Industry Projection

Asked about their program strategy in the next three years, the majority of carriers polled said they plan to expand. They also plan to add programs over that period.

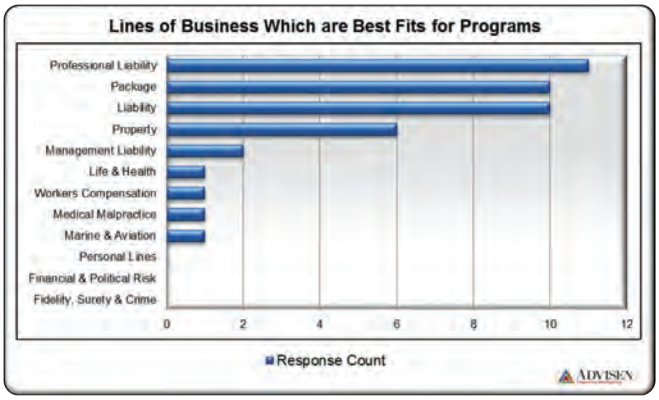
Eighty-seven percent of the respondents said they anticipate increasing the amount of premium written in the next three years, while the remaining 13 percent anticipate no change.

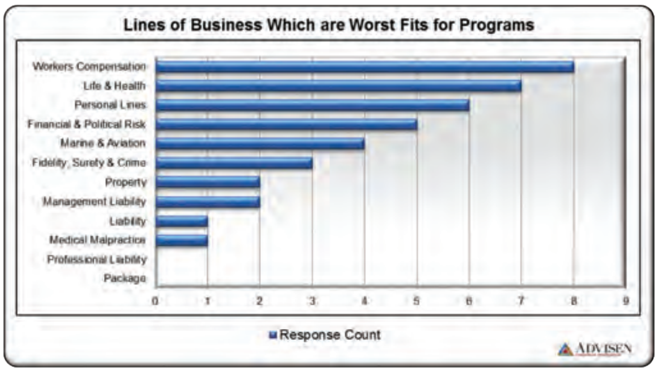


Asked about their views on the impact of the softening P&C market conditions on the growth potential of the program business, 77 percent of the insurers polled say that it will be a negative for program business growth, while 8 percent believe it won't have any impact on program business. Fifteen percent say they don't know.

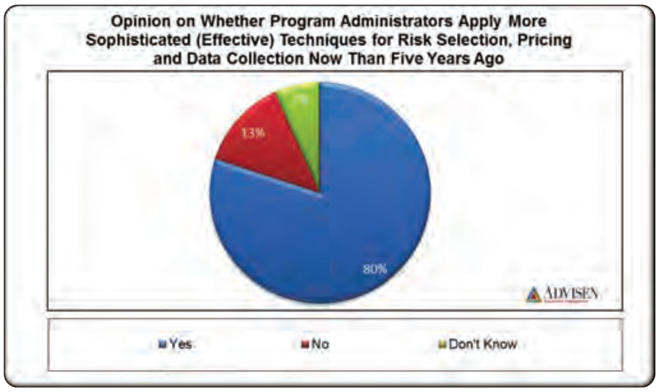


In terms of lines of business that they consider as best fits for programs, the top three answers given were Professional Liability, Package, and Liability. On the other hand, the worst fits mentioned were Workers Compensation, Life & Health, and Personal Lines.





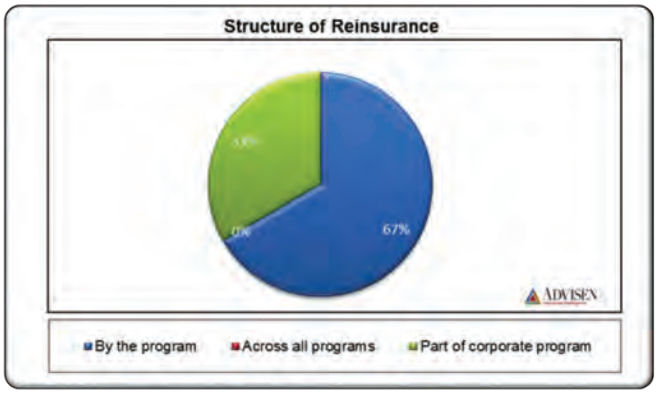
The majority of insurers surveyed say program administrators apply more sophisticated or effective techniques for risk selection, pricing and data collection compared to five years ago.

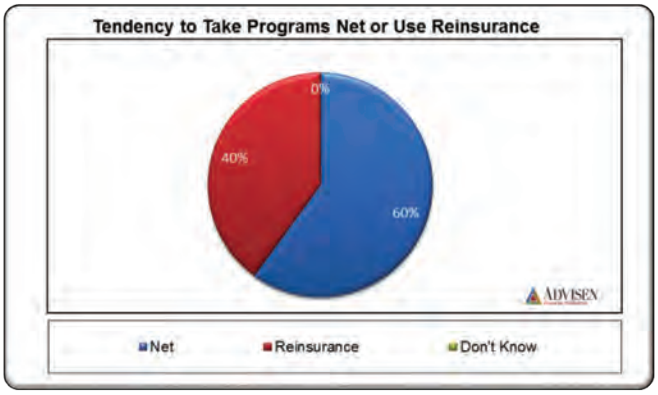


All carriers surveyed prefer direct contact with program administrators rather than going through intermediaries.

Sixty percent of the respondents say they tend to take programs net, while the remaining 40 percent said they use reinsurance.

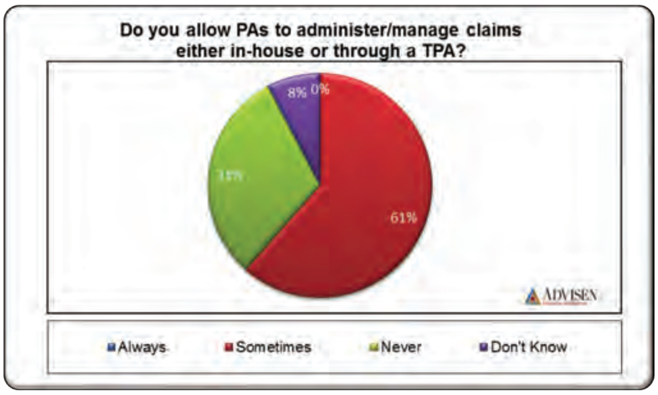
Of those who reported using reinsurance, 67 percent said it is structured by the program, while 33 percent said it is structured as part of a corporate program.



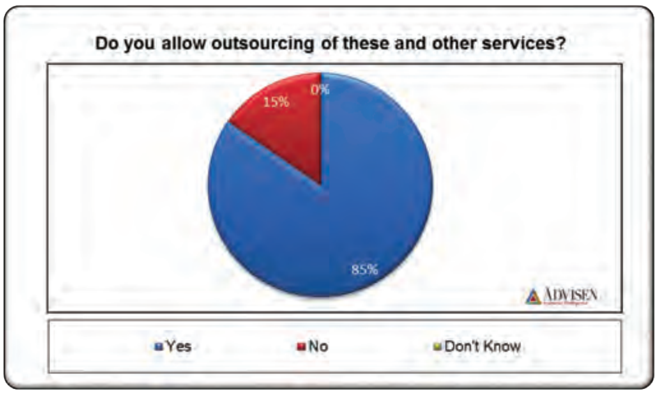


Policies on Outsourcing Services

Sixty-two percent of respondents allow program administrators to administer or manage claims either in-house or through a TPA. Thirty-one percent don't allow this, while 8 percent say they don't know.

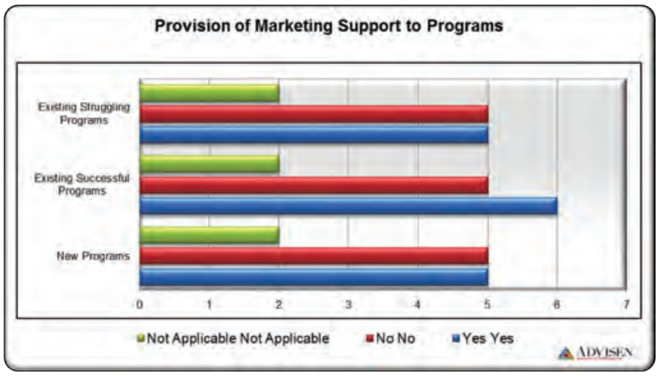


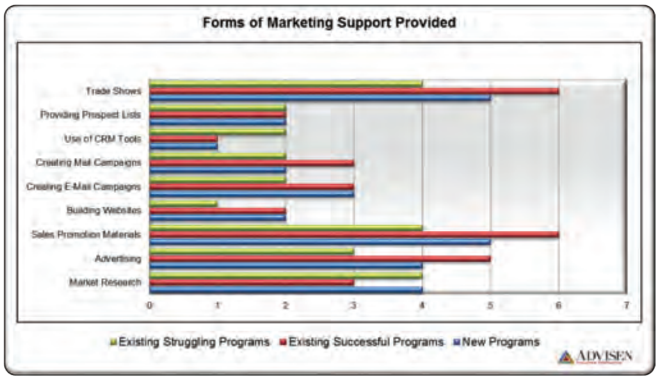
The majority of respondents polled allow the outsourcing of loss prevention and other services.



Marketing Practices

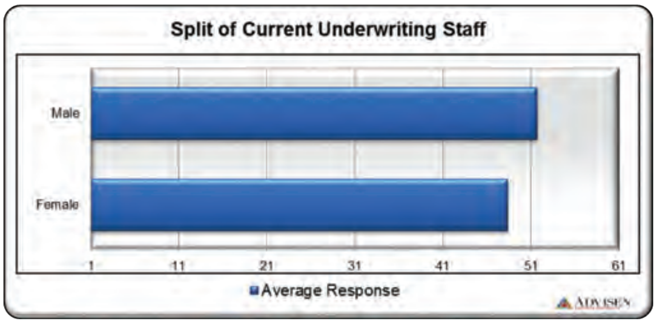
In terms of the forms of marketing support provided for existing struggling programs, existing successful programs, and new programs, an analysis of responses shows that various forms of marketing support are provided across all program types whether they are new, successful, or struggling. When it comes to trade shows, sales promotion, advertising and creating mail campaigns, greater emphasis is given to existing successful programs. While existing struggling programs receive various forms of marketing support, they are given slightly lesser attention when it comes to trade shows, advertising, sales promotion materials, mail campaigns, e-mail campaigns, and building websites. They do, however, receive greater attention when it comes to market research and use of customer relationship management (CRM) tools.





Recruitment and Training Trends

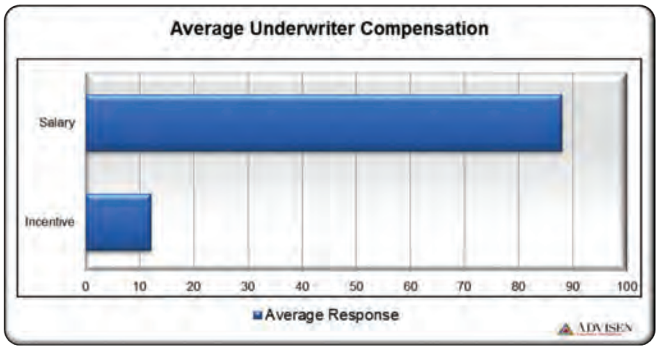
Survey results show an almost equal split between male and female underwriting staff.



**** Further information on carriers' view on recruitment and training may be found on page 41 of this report. Their views are compared with those of administrator respondents.***

Compensation

The insurer participants were asked about their average underwriter compensation split between salary and incentive. Responses show an average 85-15 split between salary and incentive.



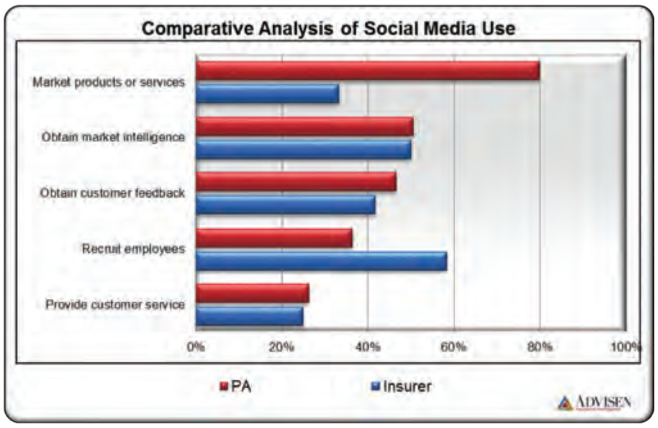
**** Further information on insurers' view on compensation may be found on page 44 of this report. Their views are compared with those of administrator respondents.***

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

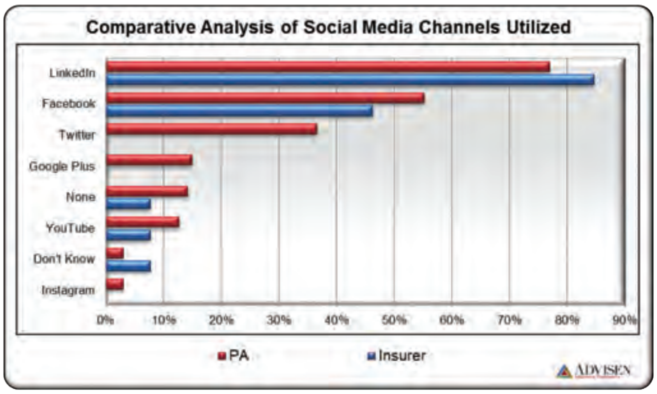
Social Media Strategy

To gather data on how administrators and insurers are using social media, Advisen asked a series of questions about respondents' views on social media used, preferred channels, the perceived effectiveness of these channels, and the ways by which players in the program space measure social media value. Responses show that administrators and insurers do not differ much in terms of social media channels used. The difference lies in their purposes for using social media.

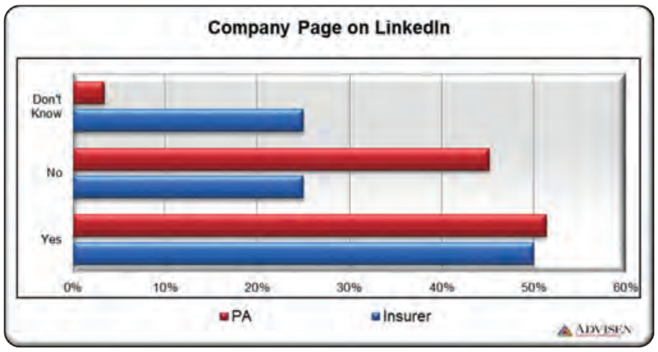
Among administrators polled, the top use for social media is to market products or services. For carriers, the top use of social media is to obtain market intelligence. Commenting on the survey results, Chris Pesce says that in his company's case, social media is used for search engine optimization.



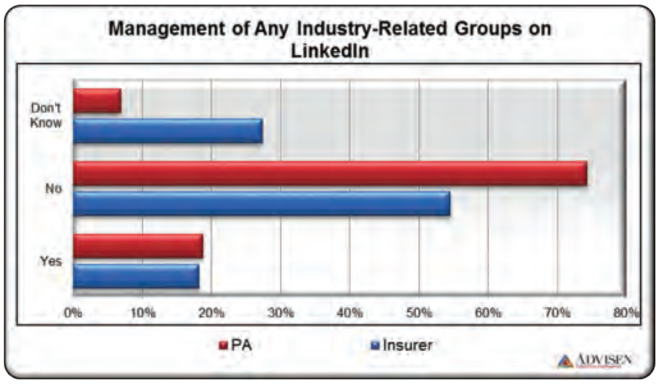
For both administrators and carriers, LinkedIn is the most popular social media channel. Founded in December 2002, LinkedIn is a business-oriented social networking service with an estimated 300 million users. Since it is mainly used for professional networking, it is a natural fit with administrators and insurers looking to expand their networks. Another favorite among those in the program space is Facebook, a social networking site with more than 1 billion users.



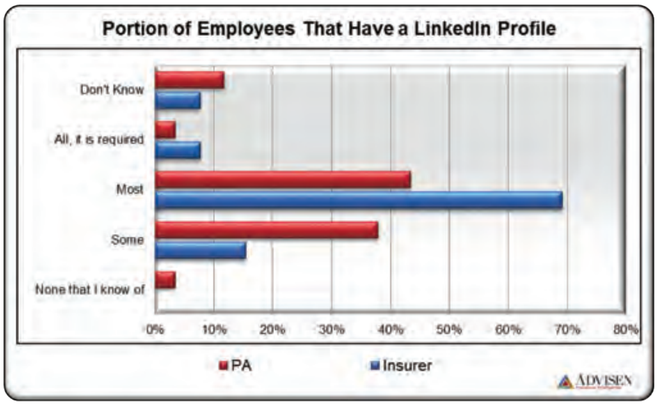
More than half of the administrators surveyed have company pages on LinkedIn. About the same percentage of insurers also are registered on LinkedIn.



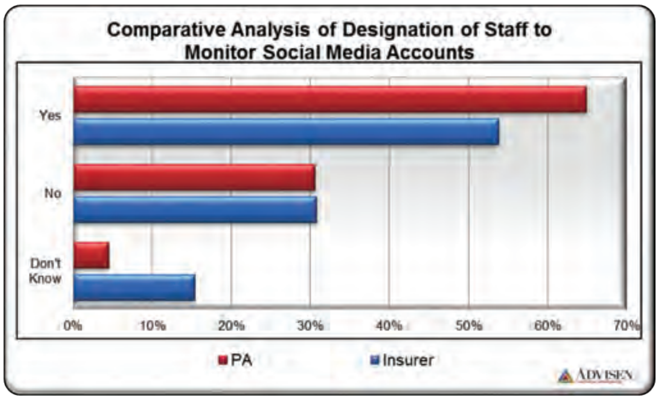
Among administrators surveyed, only 19 percent manage any industry-related Groups on LinkedIn. This compares to 18 percent for carriers.



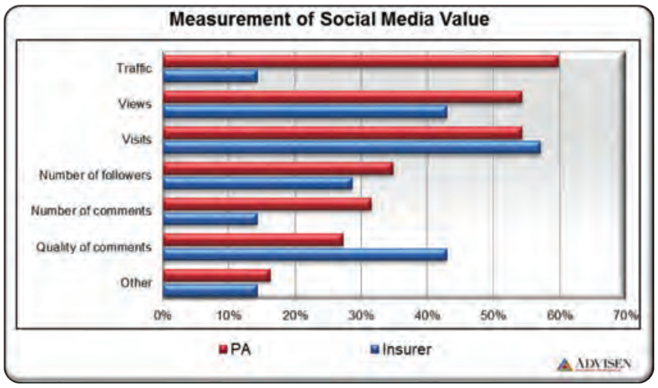
Sixty-nine percent of carriers polled report that most of their employees have LinkedIn profiles. This compares to 44 percent for administrators.



Sixty-five percent of administrators polled designate a staff member to monitor and maintain their social media accounts. This compares to 54 percent for carriers.



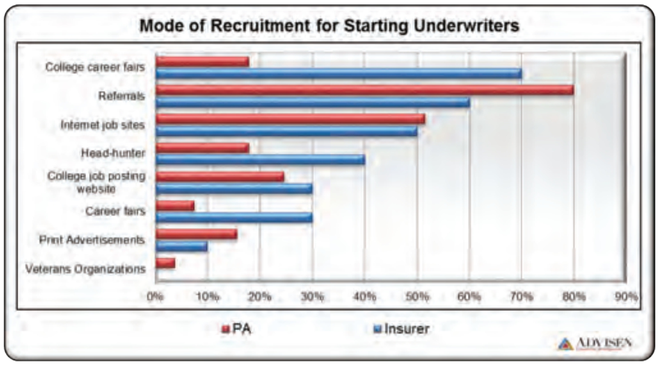
Respondents were asked about the methods they use to measure the value of social media. Responses show that administrators rely on traffic, views, and number of visits to gauge social media value. Carriers, on the other hand, rely heavily on visits and quality of comments to measure that value of social media.

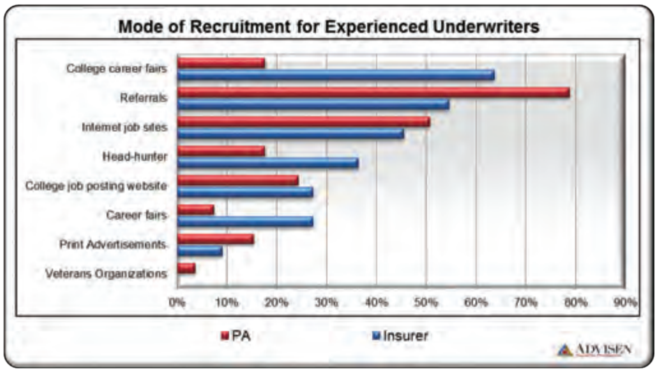


Recruitment and Training Trends

How do program administrators recruit underwriters? What do they look for in their prospects? What is the minimum education requirement to become an underwriter? Does one have to be an MBA degree holder? Will an applicant have better chances of being hired if he is a Chartered Property Casualty Underwriter? This section features administrators' and carriers' views on recruitment and training practices. A review of the minimum education and credentials required of prospective underwriters show interesting similarities and differences between the two respondent groups.

A look at the mode of recruitment of administrators and insurers reveal interesting differences. Program administrators rely heavily on referrals when recruiting underwriters. Next on their list are Internet job sites, while a far third is college job posting website. This is the case whether hiring new underwriters or experienced underwriters. Unlike administrators, carriers rely heavily on college career fairs when hiring underwriters. Next on their list are referrals and Internet job sites.

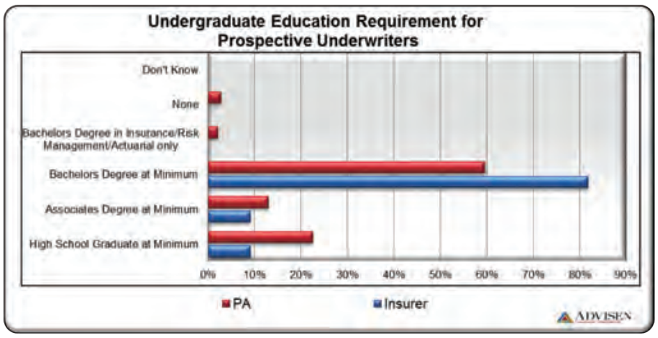




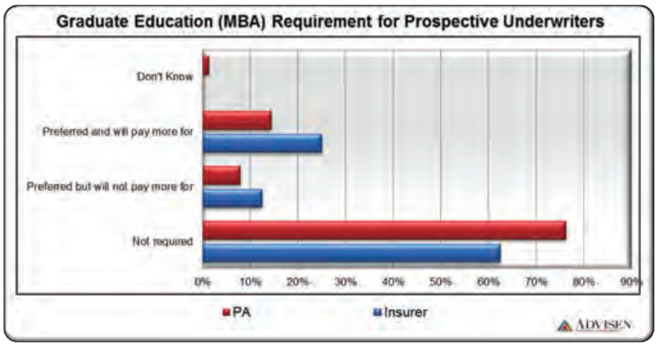
Responses show that more than a fifth of program administrators are willing to hire high school graduates and 13 percent are willing to hire those with an associates' degree, indicating a low threshold for underwriter qualifications. Still, 59 percent of administrators polled seek bachelor's degree holders at the minimum, while only 2 percent require degrees in Insurance, Risk Management or Actuarial Sciences. Compared with program administrators who participated in this survey, insurers polled seem to have a higher education threshold as 82 percent of the respondents seek those with a bachelor's degree at the minimum. Only 9 percent say they will hire high school graduates, while another 9 percent say they will hire associate degree holders. None of them indicated interest in hiring those who graduated with degrees in Insurance, Risk Management or Actuarial Sciences.

Commenting on the low education threshold shown by survey responses, Chris Pesce said "With the bidding and competing for underwriting talent, it doesn't really surprise me that program administrators are hiring people with less educational credentials but might be bright young people that they can train internally." He added, "We are in a niche market. A lot of times, we are hiring people who are in the niche. As a program administrator in the marine industry, for example, I want to hire people with a marine background and teach them insurance. That to me often matters more than a degree."

For William R. Sharp, Jr., Chief Operating Officer, Standard Lines Programs of QBE North America, the difference between education thresholds could be related to the size of the organization. "Generally speaking, most administrators are smaller organizations than most carriers. That may impact hiring practices," he said.



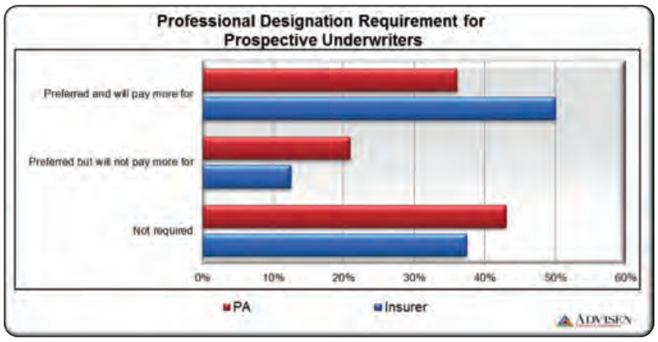
Interestingly, advanced degrees do not seem to be rewarded. Seventy-six percent of administrators surveyed do not require graduate education for their underwriters. Fifteen percent of the respondents prefer MBA holders and will pay more, while 8 percent say they prefer MBA holders, but will not pay more. For carriers, 62 percent require graduate education for their applicants. Twenty-five percent of the respondents prefer MBA degree holders and are willing to pay more, while 13 percent prefer MBA degree holders, but will not pay extra.



Professional designations are used to identify individuals as a knowledgeable and dedicated professional. In the property and casualty insurance industry, one professional designation is the Chartered Property Casualty Underwriter (CPCU), a program offered by the Insurance Institute of America.

Nearly half of the administrators polled do not require their applicants to have professional designations. Thirty-six percent say they prefer underwriters with professional designations and will pay more, while 21 percent prefer underwriters to have professional designations, but will not pay more.

In the case of insurers, half of those polled prefer underwriters with professional designations and are willing to pay more. Thirty-seven percent of the respondents do not require their applicants to have professional designations, while 13 percent prefer underwriters with professional designations, but will not pay extra.



Commenting on the survey responses on graduate education and professional designation requirements, Mr. Sharp said "the industry as a whole should be encouraging additional training and education for underwriters as well as all employees. An employee should be rewarded for obtaining insurance-related designations and degrees."

He also underscored the key role that training plays in improving the industry as a whole. "It's no secret that better trained individuals make better decisions, and a better decision process really improves the state of the industry." He explained that besides having data and information, the industry needs people who will analyze that data. In QBE's case, the training program involves a combination of online courses and practical training.

Compensation Practices

How much do administrators pay underwriters? Do insurers pay more? Compensation is always an interesting topic across all industries. Individuals and companies value data on what their peers and competitors are paying for a specific position.

We looked at undergraduate salary data from some colleges to see what underwriters are being paid. Data from Georgia State University shows that among 10 job categories, which include Accounting, Actuarial Science, Computer Information Systems, Economics, Finance, Hospitality, Managerial Sciences, Marketing, Real Estate, and Risk Management and Insurance, Risk Management and Insurance is the fourth highest paying industry with an average salary of $49,857. The highest paying is Actuarial Sciences, followed by Computer Information Systems and Finance.

Data from the University of Texas at Austin McCombs School of Business show that the Insurance / Real Estate industries pay an average annual salary of $51,563.

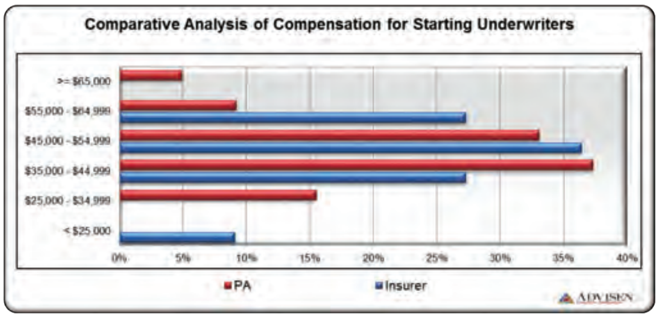
In the Salary Survey released by the National Association of Colleges and Employers (NACE) in September 2013 on starting salaries for new college graduates, Finance and Insurance ranked fifth among five top-paying industries in terms of average starting salary with $53,964. It comes next after Mining, Quarrying, and Oil and Gas Extraction; Management of Companies and Enterprises; Construction; and Manufacturing. The average starting salary for new college graduates working in the Finance and Insurance sector is significantly higher than the $45,000 average starting salary for 2013 college graduates.

The TMPAA Program Business Study 2014 posed a series of questions on compensation practices and revealed that insurers pay more than administrators do for both starting and experienced underwriters.

In terms of annual compensation paid to starting underwriters, insurers polled pay more than administrators. Thirty-seven percent of administrators polled pay an annual compensation (base + bonus) of $35,000 to $44,999 to starting underwriters, while 33 percent pay $45,000 to $54,999. Nine percent pay $55,000 to $64,999, while only 9 percent pay more than $65,000. The remaining 15 percent pay less than $34,999 annually.

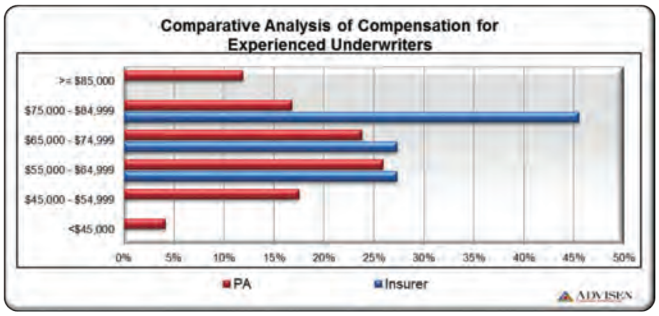
In the case of insurers, 36 percent pay an annual compensation (base + bonus) of $45,000 to $54,999 to starting underwriters, while 27 percent said they pay $35,000 to $44,999. Another 27 percent pay $55,000 to $64,999, while only 9 percent pay less than $25,000 annually. None of them reported paying more than $65,000.

Interestingly, 63 percent of insurers and 47 percent of administrators polled pay the same or higher amount than the $45,000 average starting salary for 2013 college graduates identified in a survey conducted by NACE.

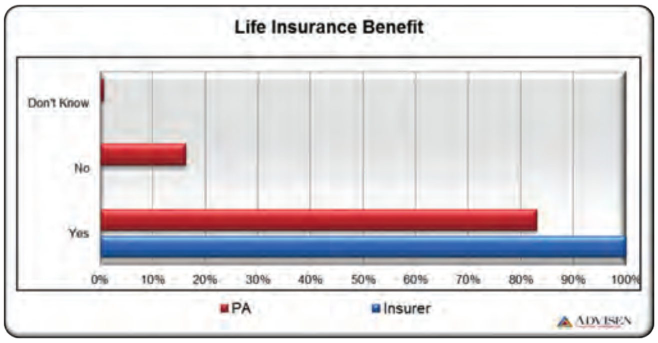


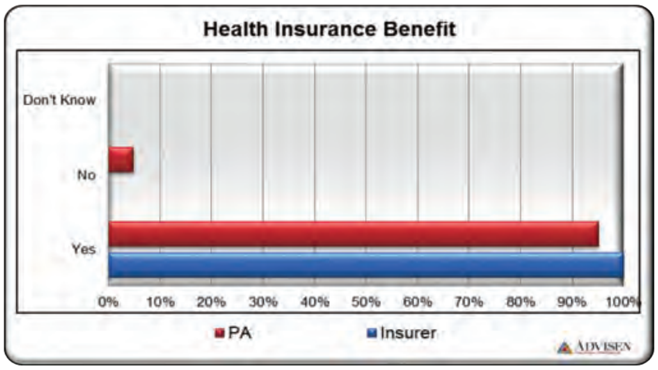
Insurers also pay more for experienced underwriters. For underwriters with five years of experience, 46 percent of insurers polled pay $75,000 to $84,999 to underwriters with five years of experience. Twenty-seven percent pay $55,000 to $64,999. Another 27 percent pay $65,000 to $74,999. Among administrators surveyed, 26 percent pay $55,000 to $64,999, 24 percent pay $65,000 to $74,999, 17 percent pay $75,000 to $84,999, and 12 percent pay more than $85,000. Seventeen percent pay $45,000 to 54,999, while 4 percent pay less than $45,000.

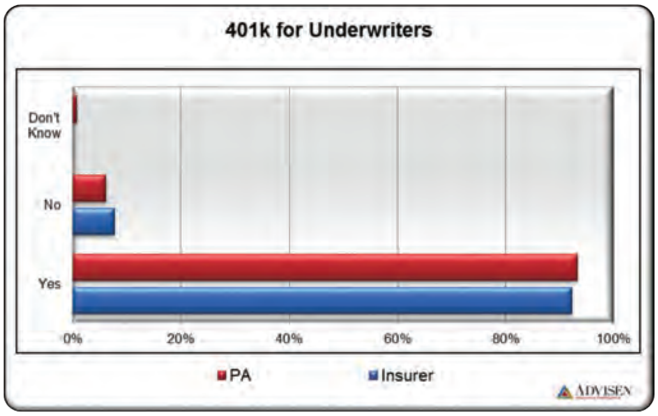
The differences in salaries between administrators and carriers may have something to do with the size of the organizations, according to Bill Sharp of QBE North America.



The majority of insurers and administrators polled provide their underwriters with health and life insurance. Contribution levels for health insurance are based on family status and health assessment. Most of them also offer a 401k.







Providing further comments on compensation practices, one administrator mentioned that they are "starting to switch over to production and profit based. He mentioned, however, that "the systems and mindset are difficult to change." Another respondent shared his view and said that "It can be hard to track profitability of an individual underwriter's portfolio, making it difficult to build a bonus model around the performance of their specific book but we try and balance overall portfolio performance as a bonus driver." Another administrator said "We are always looking for better formulas for compensation and incentives."

Issues and Challenges Faced by the Program Business

Like the rest of the insurance industry, program business is faced with a host of issues and challenges. In the 2013 survey, program administrators mentioned that starting new programs is a major issue. TMPAA members who participated in the survey said carriers are not too keen on start-ups. In this year's survey, start-ups and new programs ranked first in terms of challenges faced by program business. One administrator said carriers are reluctant to write new program business. Another respondent shared this idea, saying there is a lack of carriers who are willing to entertain proposed programs. Commenting on the future of the program business, one respondent said that the program space "will continue to grow due to the electronics but will need more carriers to step up to new start-up programs."

Providing a carrier view on the issue of start-ups, Bill Sharp of QBE North America said "Both administrators and carriers acknowledge the difficulty of starting new programs. It is difficult to find real untapped markets. This is one of the reasons why carriers are reluctant to go too deep on a start-up mode." Asked about QBE's stance on start-up programs, he said "We will consider them, but we are very thoughtful in our evaluation of new programs." He highlighted the importance of ensuring a return on investment (ROI).

Technology ranked second in terms of challenges identified by administrators. According to one respondent, there is an "Overall inability for other program managers to adapt to changes in modern operations." Another survey participant said administrators are having difficulty "keeping up with technology and dealing with expense that goes along with it." Highlighting the importance of technology, one respondent said the "program business is extremely effective and becoming more so with the improvement of technology. Better technology and program business and technology go hand in hand. I believe our program managers are the most innovative bunch within the insurance sector because automation and providing a streamlined process is what we have to do to survive."

Administrators also identified the lack of commitment from carriers as a key issue. According to one respondent, the good carriers that will stay with program managers are limited in availability.

Attracting and retaining qualified personnel is also a key issue among program administrators. "Why is the industry not attracting enough talent? Is there a reputation problem? Certainly," Chris Pesce of Maritime Program Group said in an interview. He explained that apart from big firms going to college fairs, "I don't think there is an initiative at the industry level to promote the business among students. I think we are all missing the mark when it comes to building the brand and image for the industry that can make it an attractive place to be."

Offering a carrier point of view, Bill Sharp highlighted that the program industry "needs to do a better job of promoting insurance as a career choice. It is a great industry for intelligent and aggressive young professionals and we need to continue to promote it as such."

Another issue mentioned by some of the respondents is a lack of workers' compensation markets. According to Mr. Sharp, "This is surely accurate. Workers' compensation has proven to be a difficult line for carriers to write profitably. It is a complex line." He pointed to the stringent regulatory requirements involved in this line of insurance.

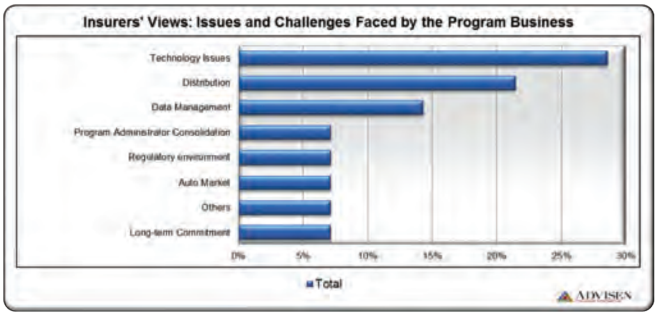
Asked what could be done to respond to the challenges they identified, administrators said there is a need to introduce new and innovative programs. They also pointed to the importance of strengthening carrier relationships, boosting employee training programs, investing in technology, and hiring talented employees.

Like the program administrators, carriers were also asked about what they perceive to be the major issues and challenges facing the industry. Technology, which was ranked second by administrators in terms of top issues facing the industry, was identified by carrier respondents as the most important issue encountered by the program space.

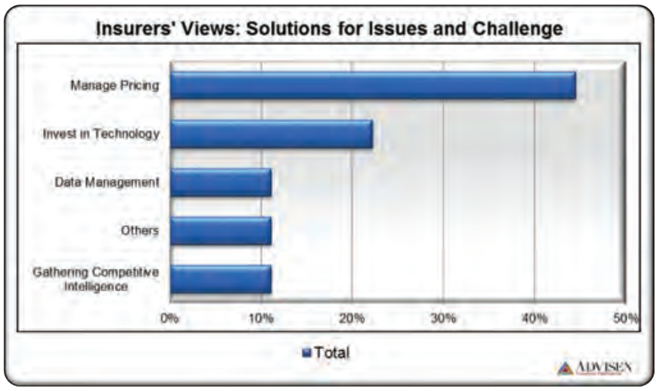
Mr. Sharp acknowledged that technology remains a huge challenge for both administrators and carriers and emphasized the need for technological improvements.

A recent study conducted by research and advisory firm Celent shows one bright spot in the area of technological investment – an increase in the deal volume between insurers and software vendors for the first time in three years. According to the North American Insurance Software Deal Trends, 2014 Property & Casualty Edition, deal volume rose 44 percent between 2012 and 2013. The report also showed an increased investment in core systems.

Other top issues identified were distribution, data management, and program administrator consolidation.



Asked how the challenges identified can be solved, the top response given was "managing pricing." As with the administrator respondents, carriers polled also mentioned the need to invest in technology. They also highlighted the importance of data management and gathering intelligence.



Future of the Program Business

Consistent with the previous survey, administrators and carriers see a bright future for program business. "Program business is the future," said one administrator respondent. Another respondent said it is "the right place to be."

Another administrator polled believe that "there will always be a place for program administrators, but we have to figure out a way to provide better technology for our agents. So many PAs (including us) still conduct business the old fashion way but at some point, we are going to have to provide on-line access to policies, etc. The only way many of us can do this is through assistance from our partner carriers."

One respondent reminds of the administrators' responsibility to carriers. "As a program administrator/MGU/MGA, we need to always remember that our ultimate responsibility is to the carrier. A properly administered book of business will, over time, make everybody a little (or a lot) more money. Over the past few decades, too many program managers had a slash and burn mentality, moving from one unsuspecting carrier to another. The death of many carriers can be attributed to these types of MGAs. As long as carriers can identify legitimately skilled and responsible underwriters/MGAs, I believe the program administration business can go on indefinitely."

For carriers, the program space will continue to be a strong market regardless of economic conditions. According to one respondent, both program administrators and carriers appear to have positive attitudes about future growth. He highlighted that it is essential that program administrators and carriers must both strive to achieve underwriting profitability. Another respondent stated that program business will continue to grow in sophistication through the use of technology.

Survey Summary and Conclusions

The program space is a good space to be in, this is the main finding of ***The TMPAA State of Program Business Study 2014.***

Despite facing challenges in the areas of start-ups, technology, recruitment, pricing, and the soft market, players in the program administration industry continue to report strong growth. Both administrators and carriers are bullish on the industry's future. They are in sync in the belief that the program space will continue to be a strong market regardless of economic conditions.

The survey also found that administrators and insurers do not differ much in terms of social media channels used. The difference lies in the purposes they use social media for. Among administrators polled, the top use for social media is to market products or services. For carriers, the top use of social media is to obtain market intelligence.

A look into educational requirements show that insurers seem to have a higher education requirement threshold compared to administrators. Both respondent categories, interestingly, do not reward advanced degrees.

On compensation, the survey found that insurers pay more than administrators do for both starting and experienced underwriters.

The 2014 survey is the fourth in a series of annual surveys of program administrators and carriers to track trends in the program business. TMPAA, Advisen, Allied World Assurance Company, Berkley Custom Insurance Managers, The Chubb Group of Insurance Companies, Fireman's Fund Insurance Company, Ironshore, and QBE North America 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 generates, integrates, analyzes and communicates unbiased, real-time insights for the global community of commercial insurance professionals. As a single source solution, Advisen helps the insurance industry to more productively drive critical decisions about pricing, loss experience, underwriting, marketing, transacting or purchasing commercial insurance. Advisen enlightens, solves, and streamlines challenges for its clients through its three divisions. Advisen's data, analytics and news services are game-changers for more than 150,000 professionals. Advisen is headquartered in New York. For more information, visit http://www.advisen.com or call +1.212.897.4800 in New York or +44(0)20.7929.5929 in London.

Sponsors

Allied World Insurance Company

www.alliedworldinsurance.com

COMPANY CONTACTS

Grace Meek

Senior Vice President, Programs

grace.meek@awac.com

646.794.0555

Melissa Rapport

Manager, Marketing Communications

melissa.rapport@awacservices.com

646.794.0507

COMPANY DESCRIPTION

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

PROGRAM BUSINESS STRATEGY

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

Berkley Custom Insurance Managers (A Berkley Company)

www.wrberkley.com/our_business/Berkley_Custom/index.shtml

COMPANY CONTACTS

Michael Coca
Chief Operating Officer
mcoca@berkleycustom.com
203.905.7562

Jonathan Gale
Senior Vice President/Underwriting Officer
jgale@berkleycustom.com
203.905.7562

COMPANY DESCRIPTION

Berkley Custom Insurance Managers is a member company of the WR Berkley Group. We are dedicated to the Excess and Surplus marketplace through appointed wholesale brokers. We specialize in excess casualty. We also partner with specialized Managing General Agencies who are proven experts in custom business areas. Our mission is to create value through excellence.

PROGRAM BUSINESS STRATEGY

Berkley Custom seeks long term partnerships with managing general agencies that possess proven expertise in specialized areas. We look for partners who are underwriting focused and seek to drive profitable results through their underwriting skills and long term broker relationships. Our preference is a minimum premium size of at least $10,000,000. We provide deep underwriting, legal, actuarial, financial and management strength. We offer A+ XV admitted and non-admitted paper.

Chubb Group of Insurance Companies

www.chubb.com

COMPANY CONTACTS

Franklin D. Sanders, Jr.

SVP - Program Management

fdsanders@chubb.com

908.572.5115

Donna A. Belvedere

Program Manager

dbelvedere@chubb.com

212.612.2410

COMPANY DESCRIPTION

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

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

PROGRAM BUSINESS STRATEGY

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

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COMPANY CONTACTS

Arun Chanana

Vice President, National Programs Executive

arun.chanana@ffic.com

908.542.5608

J. Scott Deardorff

National Underwriting Director, New Programs

scott.deardorff@ffic.com

415.899.4722

COMPANY DESCRIPTION

Founded in 1863 with a social mission to aid firefighters, Fireman's Fund has been providing specialized insurance solutions for over 150 years. We are a trusted provider of personal and commercial insurance, and are a member of the Allianz Group, one of the world's largest insurance providers.

Fireman's Fund has a 50-year track record of successful program development. We manage a portfolio of nearly 100 programs across a wide array of industries. Our agent and broker partners value our broad appetite, breadth of products, underwriting expertise, and industry-leading claims and risk services.

PROGRAM BUSINESS STRATEGY

Fireman's Fund partners with experienced retail, wholesale and MGA/MGU agent partners. We look for agents and brokers with proven expertise in the targeted class or segment, and a profitable book of business of $3 million or greater in annual premium.

We can create package, BOP and monoline programs on a state, regional or national level — on both an admitted or non-admitted basis. Contact Fireman's Fund today to discuss potential opportunities and discover why Fireman's Fund is a leader in program development.

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COMPANY CONTACTS

Marc S. Willner

Executive Vice President – Programs

marc.willner@ironshore.com

646.826.4822

Joseph Girardi

Senior Vice President – Programs

joseph.girardi@ironshore.com

626.826.4846

COMPANY DESCRIPTION

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

PROGRAM BUSINESS STRATEGY

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

QBE North America

www.qbena.com

COMPANY CONTACT

Catherine Torrey

Business Analyst, Sales

catherine.torrey@us.qbe.com

212.805.9831

COMPANY DESCRIPTION

QBE North America is a division of QBE Insurance Group Limited, one of the 20 largest insurers and reinsurers worldwide. Headquartered in Sydney, Australia, QBE operates out of 43 countries around the globe, with a presence in every key insurance market. QBE insurance companies are rated “A” (Excellent) by A.M. Best and “A+” by Standard & Poor’s. QBE Insurance Group’s 2013 results can be found at www.qbe.com.

The North America division consists of five business segments: US P&C, Specialty, Crop, Reinsurance and Financial Partner Services.

PROGRAM BUSINESS STRATEGY

We are looking to do business with Program Administrators that have been demonstrating profitable program management for 10+ years, with a focus on niche classes. They should have internal underwriting expertise and be a data-driven organization.

Preferred Program characteristics include regional, niche class, multi-line, guaranteed cost, casualty driven programs with a minimum size of $10M. Some of our target classes include alternative energy, elevator contractors, antique dealers, auto care, equipment rental, guides and outfitters, prosthetic/orthotics, and spa services.