

# Matchmaking for Program Administrators

A New Paradigm For Sourcing  
Program Capacity

Presented by



Prepared for



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The premium volume generated by what A.M. Best calls “delegated underwriting authority enterprises” (DUAEs) has doubled in the last decade. The DUAE label encompasses managing general agents (MGAs), managing general underwriters (MGUs), program administrators, and other entities that write on behalf of risk capacity providers such as insurance carriers and reinsurers.

MGAs are the largest piece of the DUAE segment, and they have been a part of the insurance landscape for more than a century. Originally a mechanism for insurance carriers to expand into new regions, many MGAs today focus on industry groups and lines of business requiring specialized underwriting expertise and carefully cultivated distribution systems. Insurers typically turn to MGAs to access profitable segments that would be too difficult or too expensive for them to reach using their existing agent and broker channels and their own underwriters. Through MGAs, they can access desirable business without significant investments.

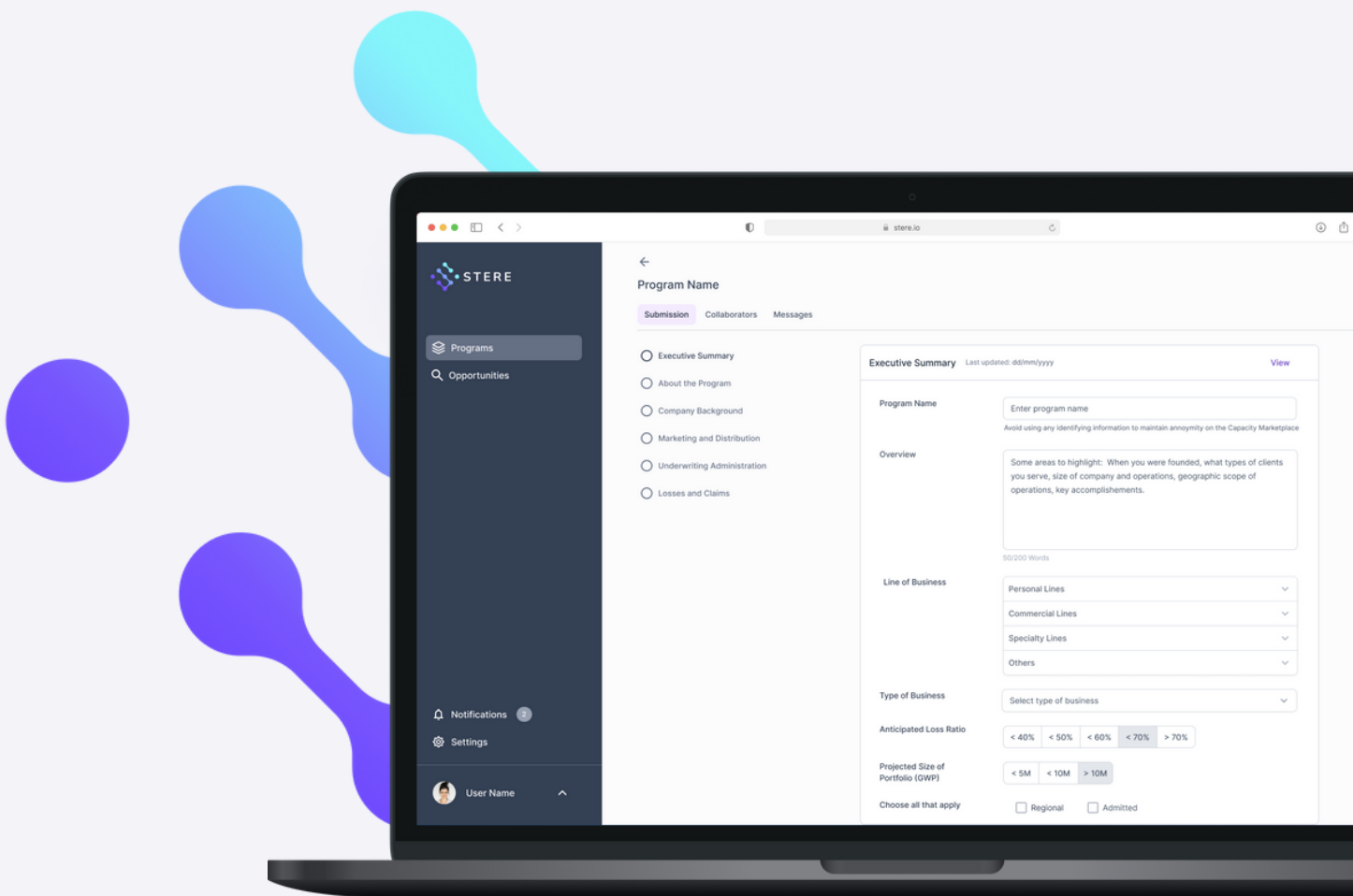
DUAEs are “capacity seekers” and typically rely on insurance carriers and reinsurers for risk capacity. MGAs and other capacity seekers scour the market to find capacity providers with an appetite for their business, and that have the experience, resources, and systems to manage a partnership effectively. Carriers and other capacity providers look for reliable DUAEs they can trust to produce a portfolio of well-underwritten business that fits within their risk appetite and underwriting parameters.



## Old approaches are ineffective

The traditional mating dance between capacity seekers and providers is inefficient and prone to producing unhappy marriages. Identifying and connecting with potential partners often relies on personal relationships and extended networks. An MGA looking for capacity typically will call all relevant carrier contacts and get in front of as many carriers as possible without any initial filtering. Neither MGAs or carriers have a clear, complete, and unbiased view of the marketplace. Finding a good fit is often a matter of chance.

Capacity seekers and providers also tend to interact using outmoded technologies. This can slow down and complicate identifying partners and negotiating deals and impede many subsequent essential interactions. The insurance industry has been slow to embrace new technologies, and the resulting inefficiencies are rarely more apparent than in this realm, where efficient communication and coordination among unaffiliated entities is essential for success.



*A program submission form lets capacity seekers enter information about their program once, to share with multiple capacity providers, in a **digital** and **data-driven** way*

# 14BN

CAT-bond and ILS issuance in 2021

## Alternative source of risk capacity

Carriers and reinsurers are the traditional risk capacity providers, but they are not the only ones. A market for insurance-linked securities (ILS) emerged in the mid-1990s as a mechanism to tap the global capital markets for an alternative source of risk

capacity. Insurance-linked securities include catastrophe bonds and other financial instruments whose values are driven by insured-loss events. They use offshore special purpose vehicles—essentially dedicated insurance or reinsurance entities—to fund losses resulting from, typically, a specific peril impacting a defined pool of risks. The ILS market has grown rapidly: according to the Artemis Deal Directory, in 2021 cat bond and ILS issuance reached \$14 billion. However, its potential is much greater, in part because of difficulties in matching ILS capacity with DUAEs. More so than in the traditional capacity marketplace, capacity seekers struggle to establish a toehold within the highly specialized ILS market and therefore are not fully benefiting from the largest and most liquid source of risk capacity.

## Embedded insurance rapidly growing

Closely allied to the DUAЕ market is the rapidly growing embedded insurance segment. Embedded insurance is coverage packaged with a product or service and purchased at the point of sale of that product or service. Embedded insurance isn't new—some types, such as auto insurance purchased with a car rental, have been around for many years. However, embedded insurance has become more prevalent in recent years as customer expectations have changed and technology makes instantaneous underwriting and policy issuance at the point of sale a largely friction-free process. According to a report by InsurTech London, the embedded insurance market is forecast to grow to \$722bn—six times its current size—by 2030.

### Embedded Insurance Global GWP Projection by 2030

USD Bn

750

500

250

0

2022

2023

2024

2025

2026

2027

2028

2029

2030

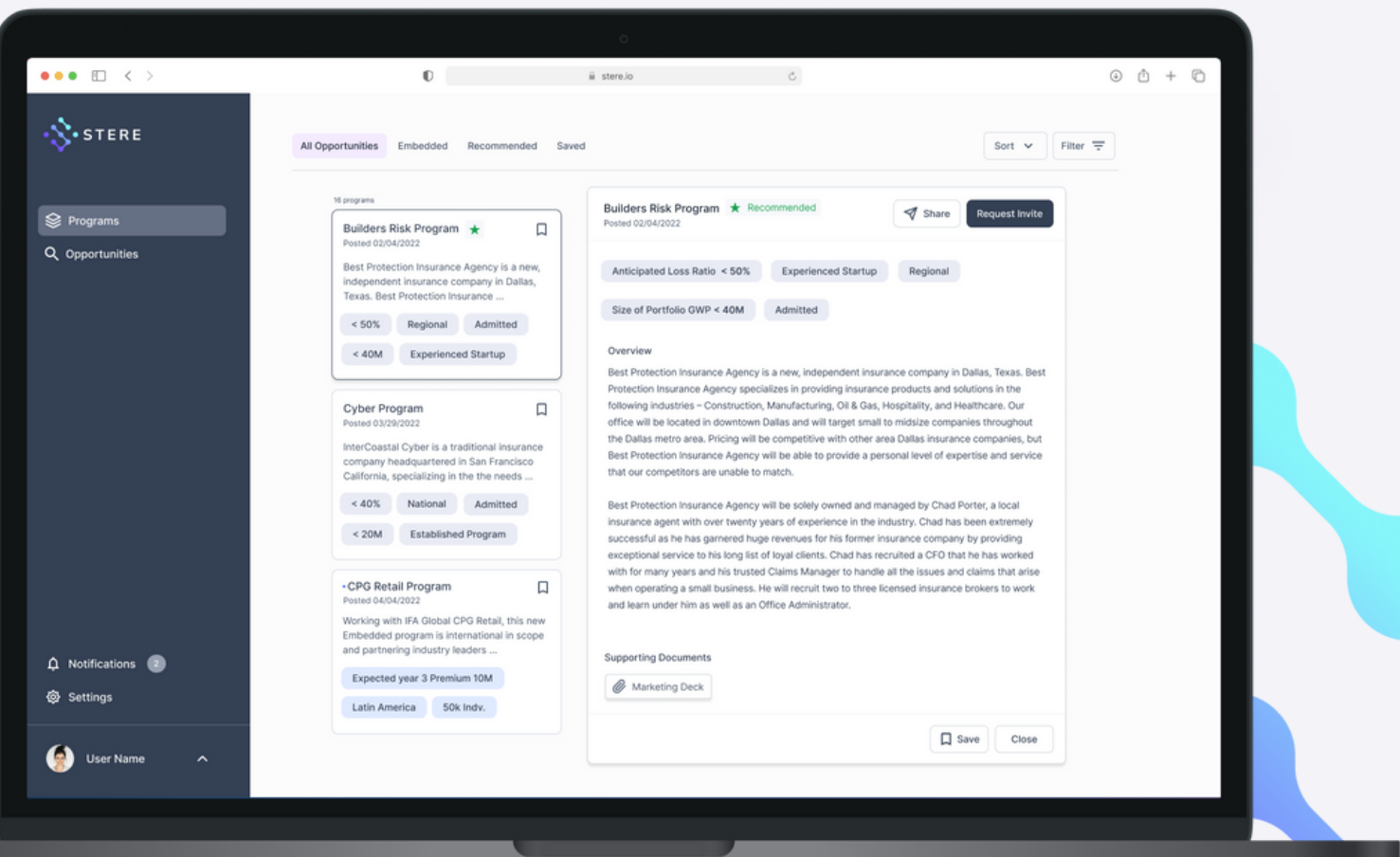
Source: InsurTech London, "Embedded Insurance"

The challenges involved with matching third-party distributors (usually product or service providers in various sectors) looking to offer embedded insurance products with insurance carriers willing and able to offer such products are similar to matching MGAs with carriers. Insurance companies that offer embedded insurance products often struggle to identify and reach distribution partners. At the same time, manufacturers, retailers, and service providers often lack contacts within the insurance industry and may have little understanding of insurance business processes. This present inefficient process is ripe for a digital makeover.

The DUAE and embedded insurance markets are growing rapidly, but they could be expanding even faster and more efficiently, with better long-term outcomes, if the marketplace was more transparent, processes were streamlined and simplified, and technology better utilized. A 360-degree view of the market enables capacity seekers to understand their capacity sourcing options better. Computer algorithms can efficiently match capacity seekers with capacity providers. Better communication technologies can improve the due diligence process, speed up negotiations, and provide a framework for ongoing information exchanges. The outcome should be increased efficiencies throughout capacity-sourcing processes; accelerated speed to market for MGA and similar programs; a better alignment of values, objectives, and priorities among partners; enhanced communications throughout the lifecycle of the partnership; and overall greater satisfaction with the process by all parties.

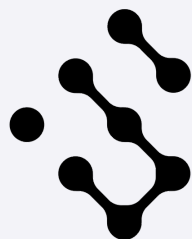
**With Stere’s platform, capacity providers can view program business opportunities that meet their risk appetites and business objectives – all in one place.**

Today, the know-how and technologies to transform outdated and inefficient capacity-sourcing processes are available. Change is already occurring and will accelerate sharply as a critical mass of capacity seekers and capacity providers recognize the benefits of an organized digital marketplace with an efficient electronic infrastructure. With the addition of third-party administrators and other players in the insurance value chain to the digital ecosystem surrounding the delegated underwriting model, the entire marketplace will be more efficient, which will further accelerate growth and enable the market to reach its full potential.



## **About Stere**

Stere is a digital ecosystem for insurance programs. With Stere, program leaders source capacity and access digital tools to launch sooner and grow faster and smarter. Stere clients are “capacity seekers” such as MGAs, program administrators, and embedded insurance programs, along with their ecosystem partners such as carriers, fronting carriers, reinsurers, brokers, program consultants, and technology providers



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