TARGET MARKETS

Program Administrators Association

THE TMPAA STATE *of* Program Business Study 2017

Research and analysis by: Advisen Transforming • Insurance

Sponsored by: Allianz · Allied World · Ironshore (Access Experience. Get Results. your safe harbour) · NetRate systems

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INTRODUCTION AND EXECUTIVE SUMMARY

The TMPAA State of Program Business Study 2017 found that the program business continues to defy the odds, delivering noteworthy results in the face of a persisting soft market and economic uncertainty.

Amid a slowdown in growth, a comparative analysis of premiums shows that the program business is still growing at a quicker rate than the overall commercial insurance marketplace.

The TMPAA State of Program Business Study is an annual survey that documents the size of the program business and tracks various trends that shape the market. Since it was launched in 2011, the survey has documented the rapid growth of the program business insurance market. From $17.5 billion in commercial insurance revenue in 2010, the program business has grown to $36.1 billion in 2016.

The survey is a source of useful benchmarking data for 465 TMPAA members. The facts and figures from the report help program administrators and carriers in conducting their businesses more efficiently with greater proficiency and profitability.

The TMPAA State of Program Business Study 2017, the sixth in a series of surveys that started in 2011, presents 2016 business results. The TMPAA did not conduct the survey in 2015. Thus, most of the comparative analysis in this survey report focuses on changes between 2014 and 2016.

In addition to reporting on the continued growth of the program business, the annual study also looked into new benchmarking areas aimed at providing key information for strategic planning in program business operations. With 166 program administrator and 46 carrier responses, the 2017 survey includes a comparative analysis of the two group's practices and views regarding data collection and management, predictive modeling, insurance technology or insurtech, cyber coverage, and hiring practices. They were also asked to provide comments about emerging risks that are suitable for program business, the challenges faced by the industry, and the future of the program business.

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

The survey found that administrators and carriers are in general agreement in the use of big data. They also remain in sync when it comes to the issues and challenges faced by players in the program space. Among key challenges identified were technology, the soft market, data collection, and the lack of fresh talent. Both groups also expressed optimism about the industry's future.

Significant differences were also highlighted between the larger and smaller program administrators, one of which is that the larger firms have a greater propensity to acquire other program administrators.

The question topics for the 2017 survey were designed and reviewed by a committee of TMPAA member Program Administrators and Carriers, the TMPAA Board, and Advisen Ltd.

Consistent with the first five 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 Allianz, Allied World, Ironshore, and NetRate Systems – members of the TMPAA.

KEY FINDINGS

OVERALL

- A consistent finding of the TMPAA surveys since it started in 2011 was that program business is thriving despite the overall soft market for property and casualty insurance. In 2016, program administrators continued to report positive results in terms of growth in premiums administered, renewal rates, and net revenue.
- It is important to note, however, that an analysis of survey results between 2010 and 2016 shows that revenue is growing, but at a slower rate. While the rate of growth has slowed, it is still relatively high compared to other segments of the P&C industry. Administrators also continued to express optimism about the current state and the future of program business.
- Program administration is a large business at $36.1 billion in premiums in 2016. The estimated size of the market rose 11.7 percent from $32.3 billion in premiums in 2014.
- The program business is growing more quickly than the overall commercial insurance marketplace. While the size of program business rose 5.3 percent in 2016, the growth in direct premiums written for commercial lines increased by only 1.3 percent in 2016.
- Since TMPAA inaugurated the market study, program premiums rose 106 percent from $17.5 billion in 2010 to $36.1 billion in 2016.
- The TMPAA State of Program Business Study 2017 estimates that there is roughly 1,000 organizations in the United States that meet the TMPAA's definition of program administrator as of 2016.
- Program administrators are increasingly delivering services through an in-house mechanism.
- A comparative analysis of administrators' and carriers' involvement with insurtech shows that carriers are more involved than administrators. A greater number of carriers also see insurtech as an opportunity.
- Both administrators and carriers have limited use of big data for analytical and decision making purposes.
- While many carriers and program administrators offer some form of cyber coverage, take-up rates remain relatively low.
- Automobile liability insurance stood out as a problem area with administrators reporting the greatest share of premium increases and the greatest number of insurers looking to reduce their business.

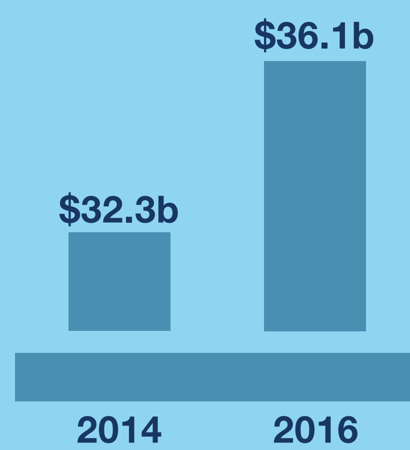
2016

Program Business by the Numbers

The TMPAA State Program Business Study 2017

$36.1 billion
in premiums in 2016

11.7%
increase in estimated size of the program business



2016
$36.1b

2010
$17.5b

106%
Increase in program revenues from 2010 when TMPAA inaugurated the market study

an estimated 1,000
program administrators in the U.S. in 2016

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Program business
continues to be a vibrant market despite slowdown in growth.

The program business is growing more quickly than the overall commercial insurance marketplace.

While the size of program business rose **5.3%** between 2015 and 2016, the growth in direct premiums written for commercial lines increased by only **1.3%** over the same period.

106% increase in program revenues from $17.5 billion in 2010 when TMPAA inaugurated the market study, to $36.1 billion in 2016

Average renewal rate remained high
83.7%

25% of administrators reported renewal rates of over 90%.

Administrators and carriers polled continue to paint a rosy picture of the market.

"We see the PA marketplace as a very solid business strategy in the P&C industry. Our ability to develop and launch niche programs backed by leading edge technology has led to very high new account and renewal rates. Thus we have forecasted exponential growth and earnings through 2019."

"Growth trends are good (10+%). Renewal rates are higher. Profits are higher. Trust factor and collaborative problem solving have increased. Very bullish on the next five years."

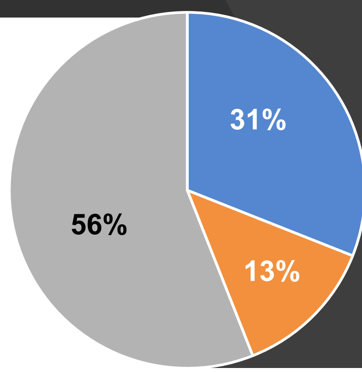
Advanced technologies have room to grow in the program business.

The TMPAA State of Program Business Study 2017 found an increase in the use predictive modeling among administrators in 2016. Still, appreciation for the technology remains limited.

37% administrators engaged in predictive modeling in 2016 compared to 26% in 2014.

Only 26% of administrators polled see predictive modeling as extremely important to their underwriting strategy.

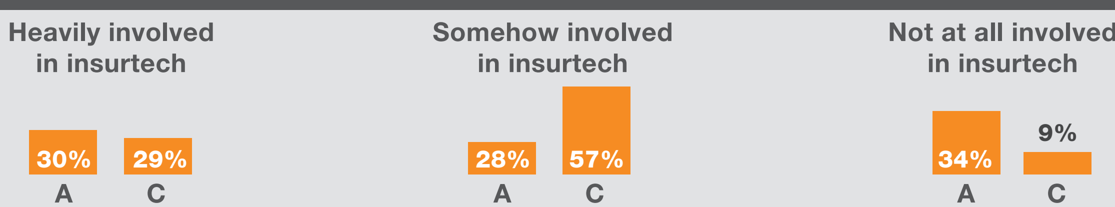
31% of administrators saw a positive change when asked about the impact of predictive models on program profitability.



Impact of predictive models on program profitability

- Saw positive change
- Saw negligible change
- Had no view

Carriers are more involved with InsurTech than administrators.



**A – Administrators | C - Carriers*

A greater number of carriers also see insurtech as an opportunity compared to administrators.

56% administrators | **85%** carriers

Administrators and carriers have limited use of **big data** for **analytical** and **decision-making purposes.**

32% administrators

35% carriers

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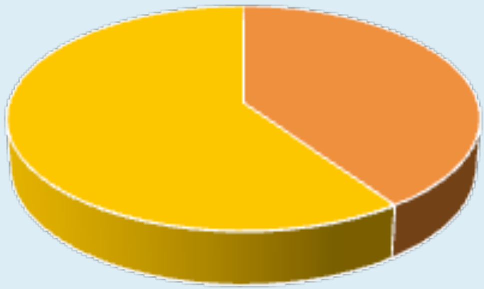
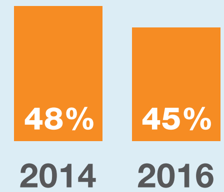
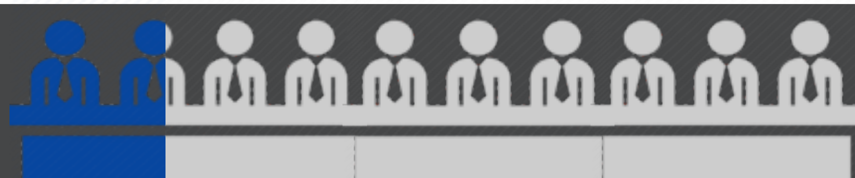
Nearly half of administrators polled are looking to acquire other firms.



45% of administrators surveyed are looking to acquire other firms anytime soon in the foreseeable future.



The **larger administrators** exhibited a **greater tendency** to **acquire** other program administrators.



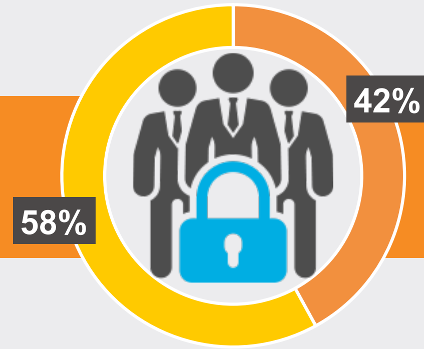
18%

of administrators polled said current valuations are preventing them from successfully acquiring.

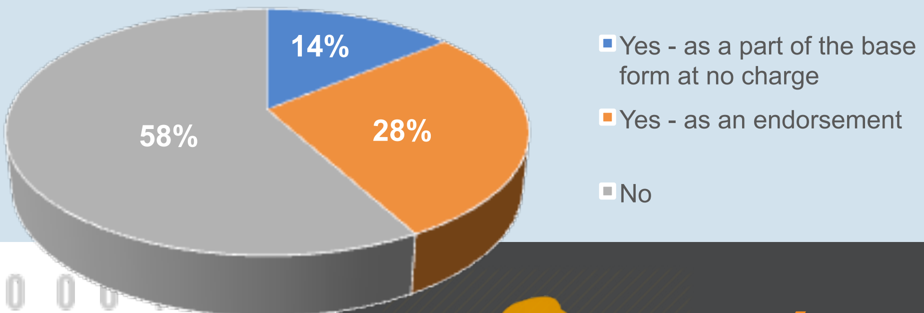
21% of carriers surveyed plan to grow their program business by acquiring program administrators.

Take-up rates for cyber coverage remain relatively low in the program business.

42% of administrators polled offer a standalone cyber policy, while **58%** said they do not.



Are you including cyber as part of your standard package policy?



7%

of administrators polled use third party cyber risk analytics.

75%

of carriers surveyed offer their program administrators optional cyber cover to add to their program packages for a charge.

PROGRAM ADMINISTRATORS

DEMOGRAPHICS

One hundred sixty-six program administrators responded to ***The TMPAA State of Program Business Study 2017***. This compares to 156 participants in the 2015 survey, 181 participants in the 2014 poll, and 214 participants in the 2013 survey. There were 190 participants in 2012 survey and 92 respondents during the inaugural survey in 2011.

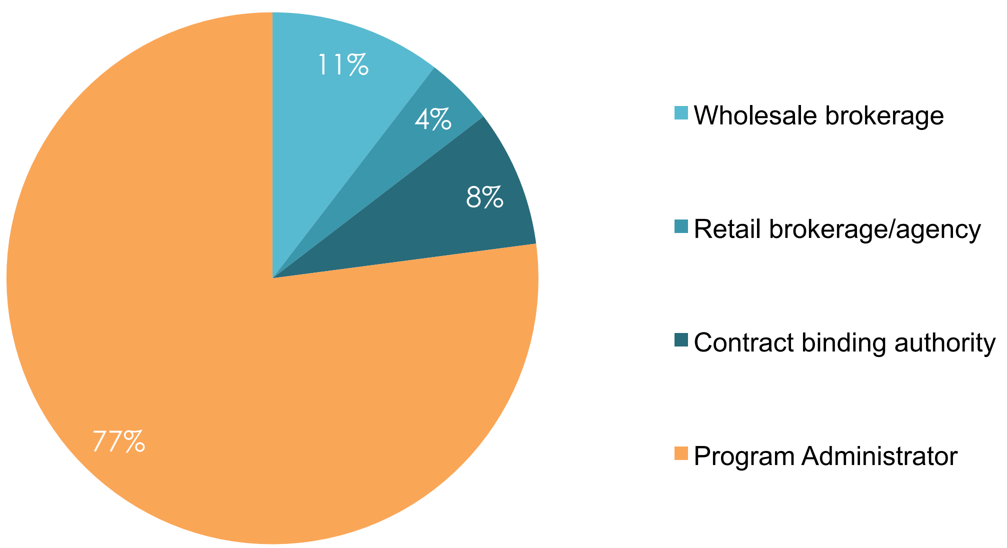
Respondents vary in terms of number of programs administered, revenues, and gross premiums written. These differences are key to understanding specific details about the survey participants' views and practices. The profile of this year's respondents is roughly consistent with those from prior surveys.

As in previous surveys, in analyzing the survey results, Advisen Ltd. 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.

PROGRAM ADMINISTRATOR INFORMATION

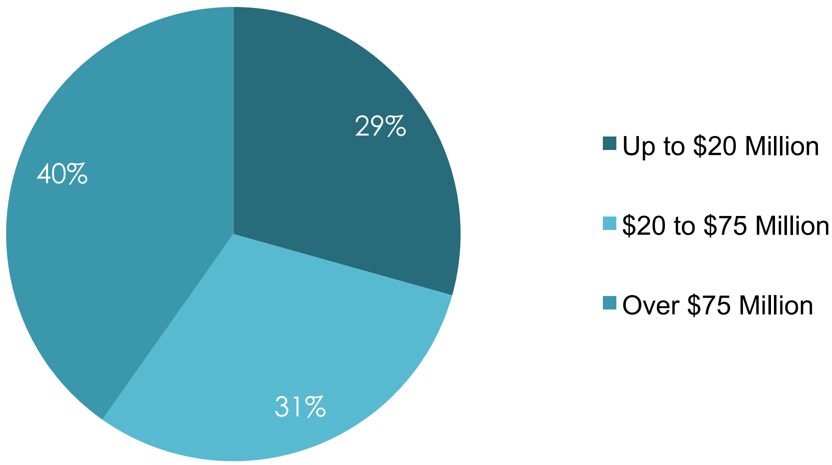
As with the previous survey, while all respondents administer at least one program, the majority of respondents (77%) reported that Program Administrator best describes their firm. Eleven percent describe themselves as Wholesale Brokerage, 8 percent as a Contract Binding Agency, and 4 percent as Retail Brokerage/agency.

DESCRIPTION OF FIRM



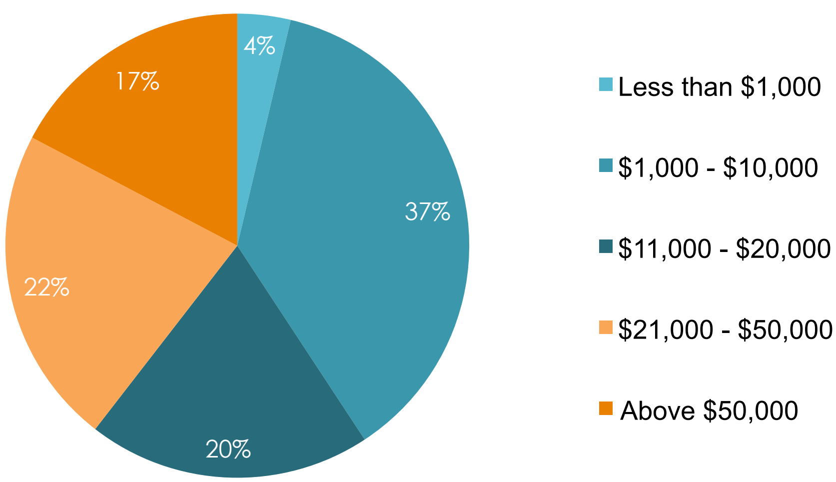
Forty percent of the administrators say their total gross written premiums for program is over $75 million, 31 percent say $20 to $75 million, while the remaining 29 percent say up to $20 million.

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



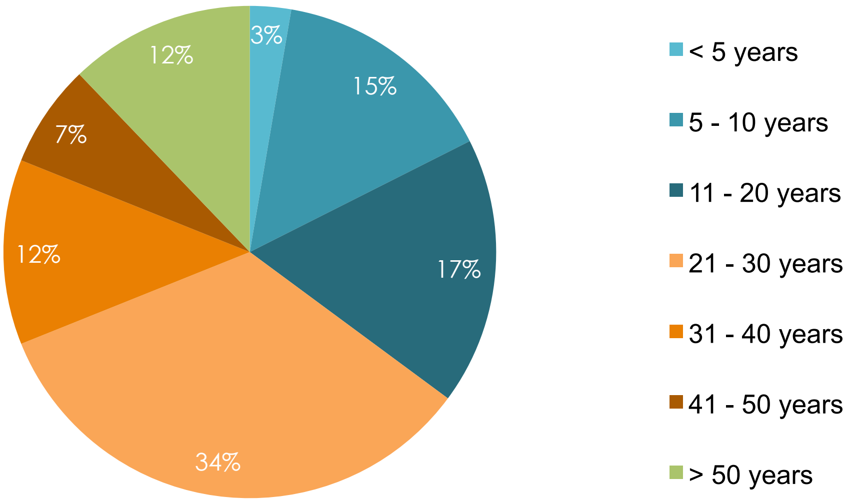
Asked about their average premium per account, 37 percent of administrators said $1,000 to $10,000, 22 percent said $21,000 to $50,000, 20 percent said $11,000 to $20,000, 17 percent said more than $50,000, and 4 percent said less than $1,000.

AVERAGE PREMIUM PER ACCOUNT



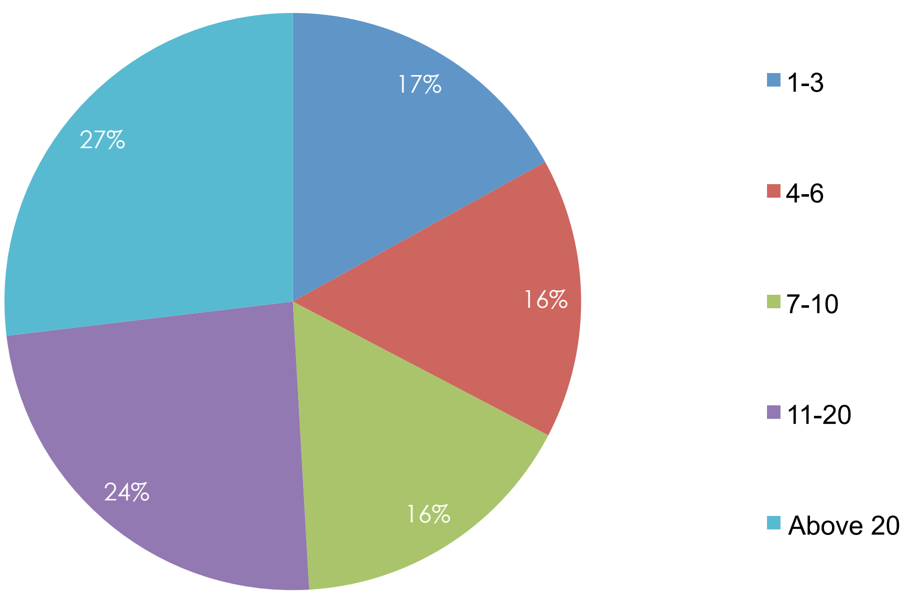
In terms of longevity in the program business, 34 percent said their firm is 21-30 years old, 17 percent are in the 11-20 years bracket, and 15 percent said their firm is between 5-10 years old. Twelve percent ticked the 31-40 years old bracket, another 12 percent belong to the more than five decades group, 7 percent said their firm is between 41-50 years old, and 3 percent are less than five years.

AGE OF FIRM



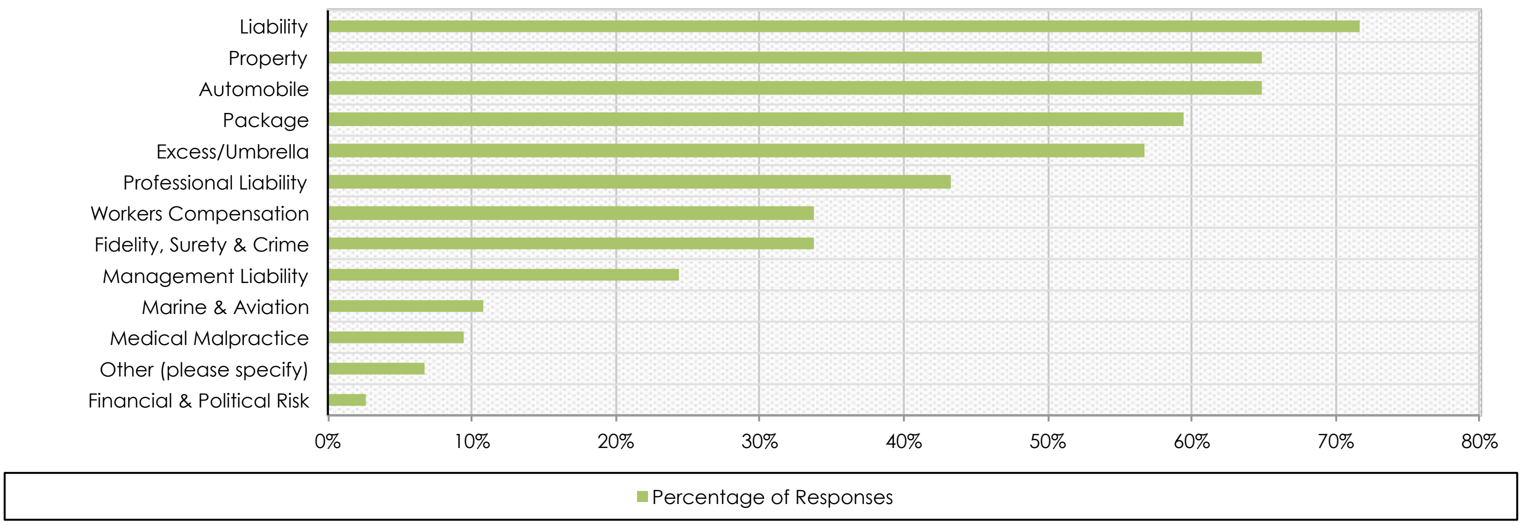
As with the previous surveys, many of this year's respondents came from mid-sized and bigger players. Fifty-one percent of the respondents administer more than 10 programs. This compares to only 38 percent in the previous survey. Seventeen percent of the respondents administer 1 to 3 programs, 16 percent administer 4 to 6 programs, and another 16 percent administer 7 to 10 programs.

NUMBER OF DISTINCT PROGRAMS ADMINISTERED



The top three lines of business underwritten are liability, property, and automobile. As with the previous survey, the bottom three are financial and political risk, medical malpractice, and marine and aviation.

LINES OF BUSINESS UNDERWRITTEN



The 2017 survey looked into the share of rate increases or decreases per line of business. Liability, management liability, professional liability, excess/umbrella, and workers compensation showed an almost 50-50 share between increases and decreases. Fidelity, surety and crime; marine and aviation; property; financial and political risk; medical malpractice; and package had a bigger share of respondents reporting decreasing premiums.

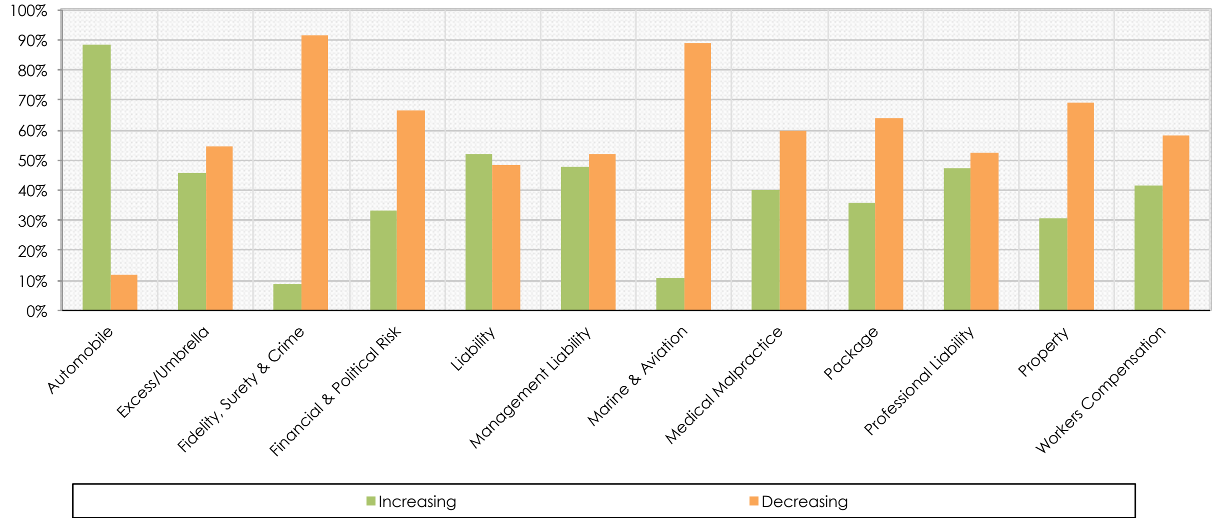
Automobile liability insurance stood out as a problem area with administrators reporting the greatest share of premium increases and the greatest number of insurers looking to reduce their business.

The results are consistent with Fitch's *U.S. Commercial Auto Insurance Market Update*, which stated that "The commercial auto line continues to create a profit drag for U.S. property/casualty insurers." According to Fitch, the commercial auto line showed poor performance in 2016 and featured the worst underwriting performance for the line since 2001. "Commercial auto insurance premium rates continue to increase in response to consistent underwriting losses, sharply contrasting with pricing trends in commercial lines overall that fell for more than two years."

The line's poor performance continued in the first quarter of 2017. Data from the Insurance Information Institute shows that commercial auto remains the outlier with meaningful price increases reported.

A number of administrators polled identified auto as one of the greatest challenges faced by the program business. "Carriers are not interested in commercial auto," one respondent said. Another administrator said that "auto line profitability" is a challenge. Another respondent commented that, "For trucking insurance, major issue is Auto Liability market. Very few carriers provide auto liability to truckers."

SHARE OF RATE INCREASES/DECREASES BY LINE OF BUSINESS



PROGRAM BUSINESS REMAINS VIBRANT DESPITE SLOWDOWN IN GROWTH

Program administrators continued to paint a vibrant picture of the program business in 2016.

"We see the PA marketplace as a very solid business strategy in the P&C industry. Our ability to develop and launch niche programs backed by leading edge technology has led to very high new account and renewal rates. Thus we have forecasted exponential growth and earnings through 2019," one respondent said. Another administrator shares this view. "I expect growth in programs to continue outpacing the rest of the industry."

Some carriers also agree. "Growth trends are good (10+%). Renewal rates are higher. Profits are higher. Trust factor and collaborative problem solving have increased. Very bullish on the next five years," commented one carrier respondent.

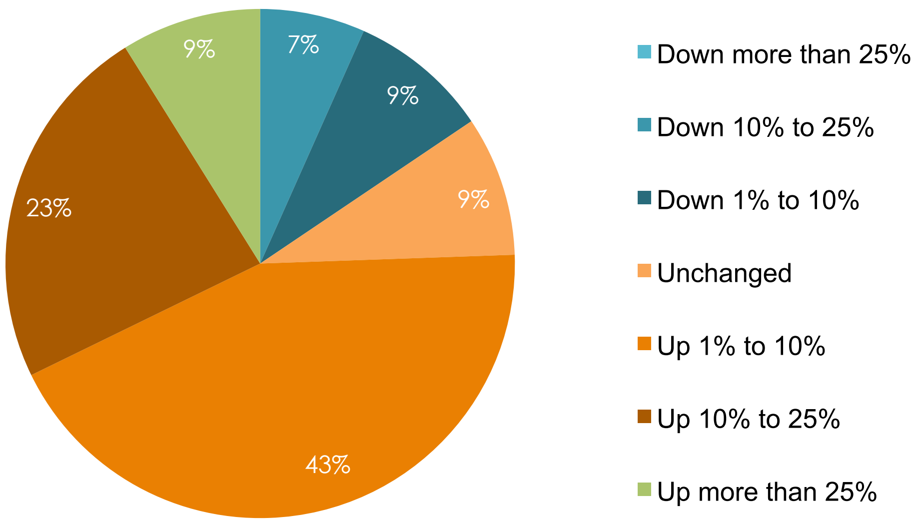
"WE SEE THE PA MARKETPLACE AS A VERY SOLID BUSINESS STRATEGY IN THE P&C INDUSTRY. OUR ABILITY TO DEVELOP AND LAUNCH NICHE PROGRAMS BACKED BY LEADING EDGE TECHNOLOGY HAS LED TO VERY HIGH NEW ACCOUNT AND RENEWAL RATES. THUS WE HAVE FORECASTED EXPONENTIAL GROWTH AND EARNINGS THROUGH 2019," ONE RESPONDENT SAID. ANOTHER ADMINISTRATOR SHARES THIS VIEW. "I EXPECT GROWTH IN PROGRAMS TO CONTINUE OUTPACING THE REST OF THE INDUSTRY."

Responses from program administrators show that this segment continued to post upbeat figures for premiums, renewal rates, and revenues. It is important to note, however, that the pace of growth has slowed down. Still, the program business remains one of the brightest spots of the P&C market.

The number of administrators who reported increases in premiums dropped from 82 percent in 2014 to 76 percent in 2016. Previous rates of increases in premiums were 52 percent in 2010, 72 percent in 2011, and 82 percent for both 2012 and 2013.

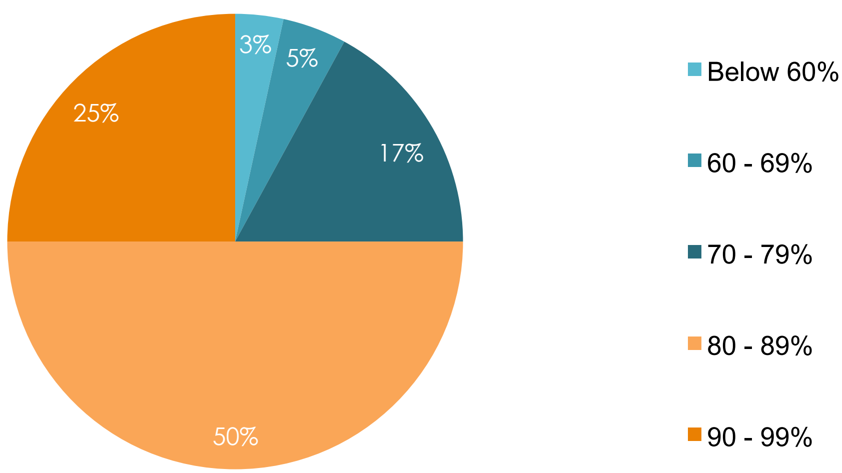
Those who reported premium increases of more than 25 percent declined from 18 percent in 2014 to 9 percent in 2016. Those who recorded increases of 10 to 25 percent dropped from 33 percent in 2014 to 23 percent in 2016. Those who reported increases of 1 to 10 percent increased from 31 percent in 2014 to 43 percent in 2016. The number of respondents who reported a decline in premiums rose from 10 percent in 2014 to 16 percent in 2016. Nine percent of respondents reported no change in premium in 2016 compared to 8 percent in 2014.

PERCENTAGE CHANGE IN PREMIUMS ADMINISTERED IN 2016



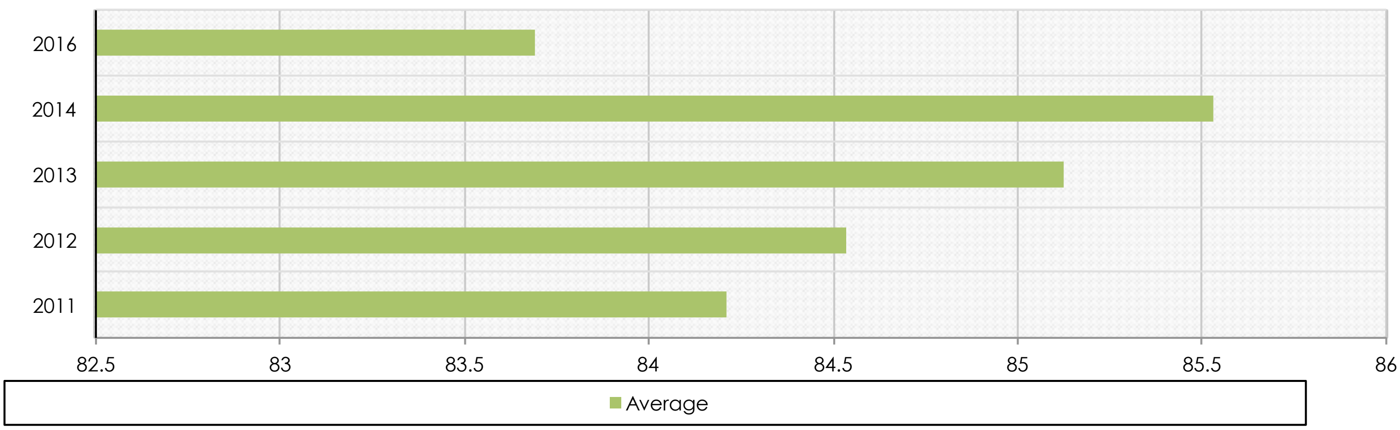
A fourth of the administrators polled reported renewal rates of over 90 percent, while half registered renewal rates of between 80 percent and 89 percent.

POLICY COUNT RENEWAL RATE



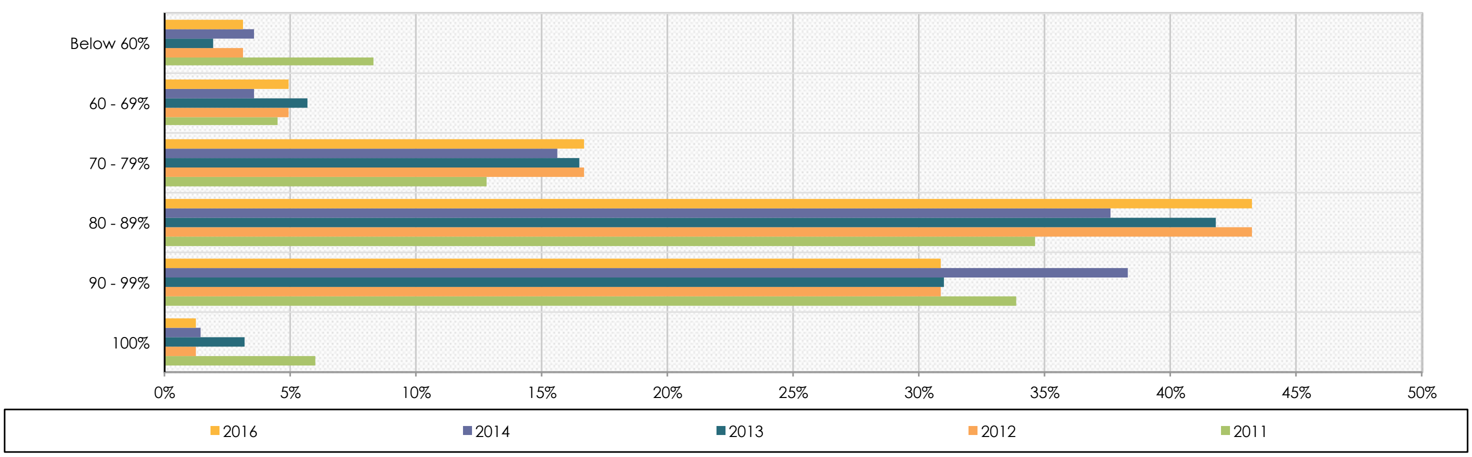
While average renewal rates remained high, it is lower than rates recorded in previous years.

AVERAGE RENEWAL RATE BY YEAR



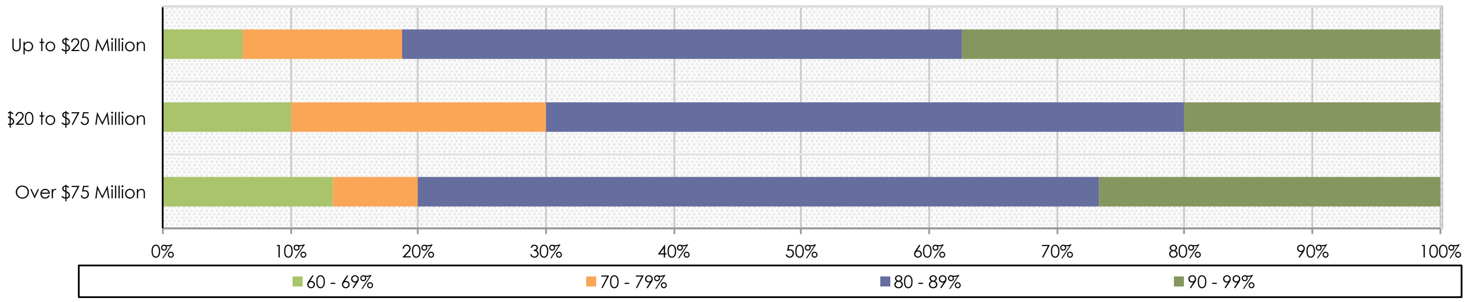
The percentage of administrators reporting a 100 percent and 90 to 99 percent renewal rates declined, but those reporting a renewal rate of 80 to 89 percent, 70 to 79 percent, and 60 to 69 percent increased significantly.

COMPARATIVE ANALYSIS OF RENEWAL RATES (2011 - 2016)



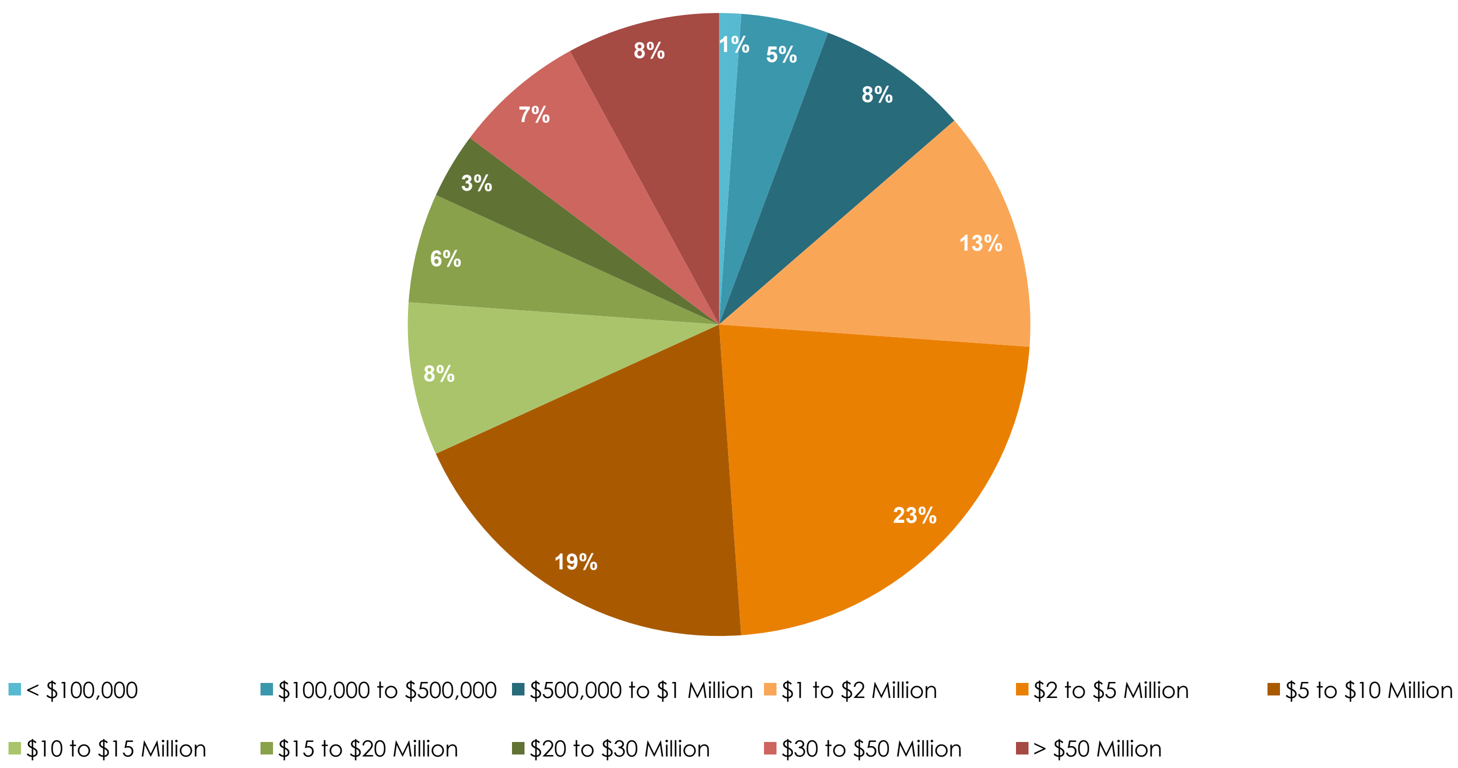
Consistent with the previous survey's results, smaller firms had the greatest proportion of programs with over 90 percent renewal rates.

RENEWAL RATE BY SIZE OF ADMINISTRATOR

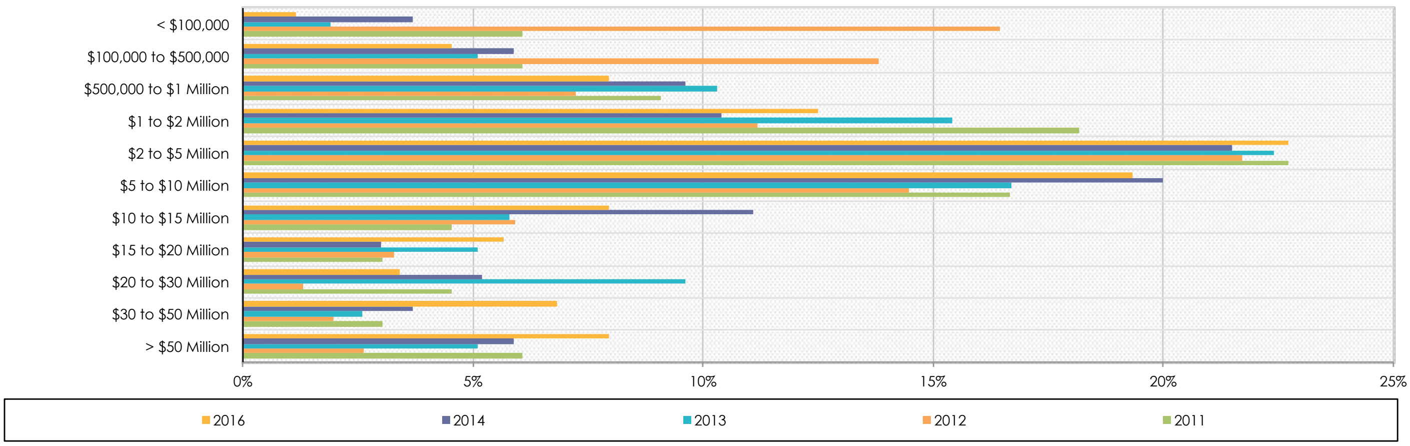


Forty-nine percent of program administrators polled are from small firms with gross program administration revenues of less than $5 million. This compares to 54 percent in the previous survey. The percentage of firms reporting revenues of between $5 million and $30 million declined marginally from 39 in the previous survey to 36 percent in the 2017 survey. Those who reported revenues of more than $30 million also increased from 10 percent in 2015 survey to 15 percent in the 2017 poll.

PROGRAM ADMINISTRATION GROSS REVENUES (NOT PREMIUMS) IN 2016

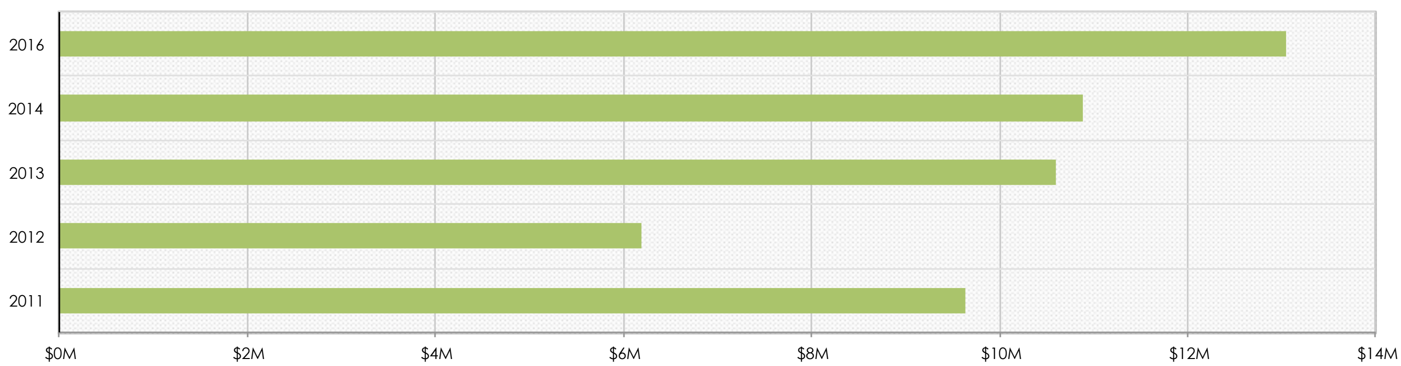


PROGRAM ADMINISTRATION REVENUES (2011 - 2016)



Average respondent revenue increased significantly from $10.9 million in 2014 to $13.04 million in 2016, possibly influenced by a few larger administrators.

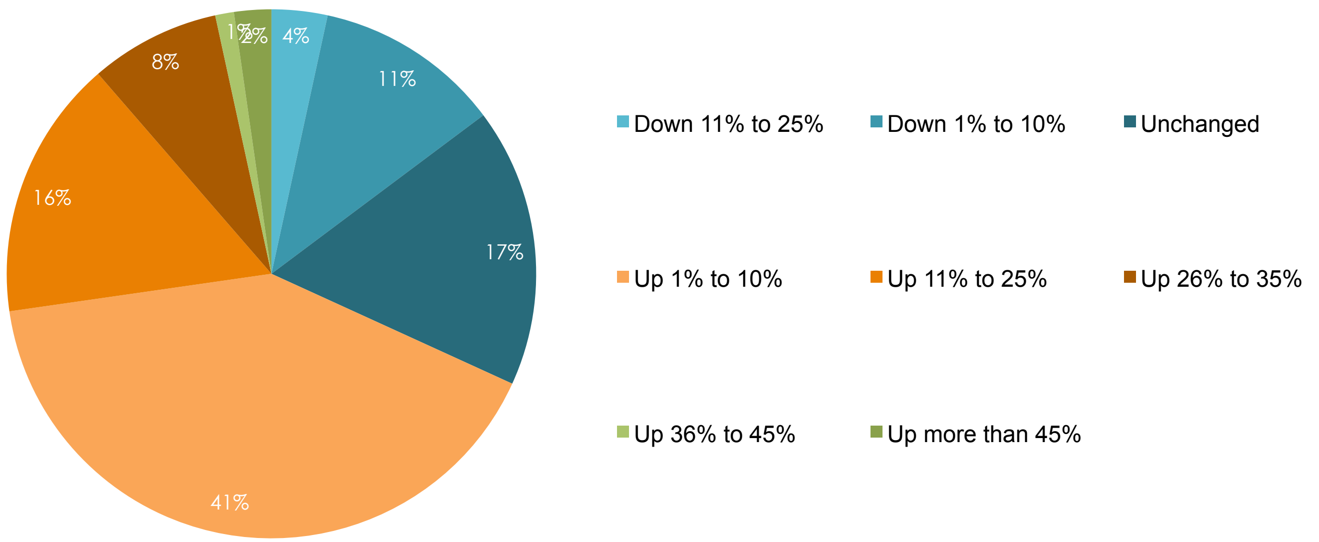
AVERAGE REVENUE BY YEAR



Sixty-eight percent of respondents reported increases in program administration revenues in 2016, significantly lower than the 78 percent recorded in 2014. Fifteen percent reported declines in 2016 – slightly higher than the 12 percent recorded in 2014. Seventeen percent of respondents reported no changes, compared to 10 percent in the previous survey.

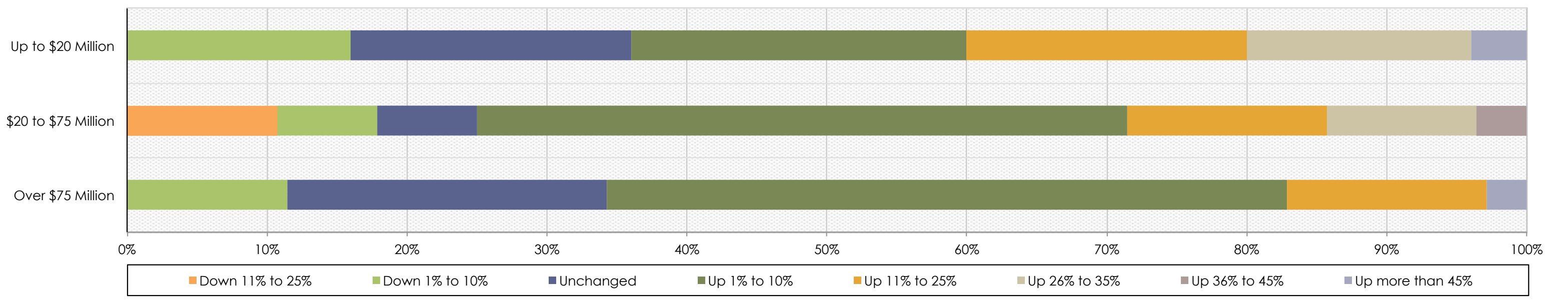
Of those who reported increases, 41 percent says program administration gross revenues rose 1 to 10 percent, 16 percent saw increases of between 11 to 25 percent, while 11 percent reported increases of more than 25 percent. Among those who reported declines, 11 percent say gross revenues dropped 1 to 10 percent, while 3 percent saw declines of between 11 and 25 percent.

PERCENTAGE CHANGE IN PROGRAM ADMINISTRATION GROSS REVENUES IN 2016



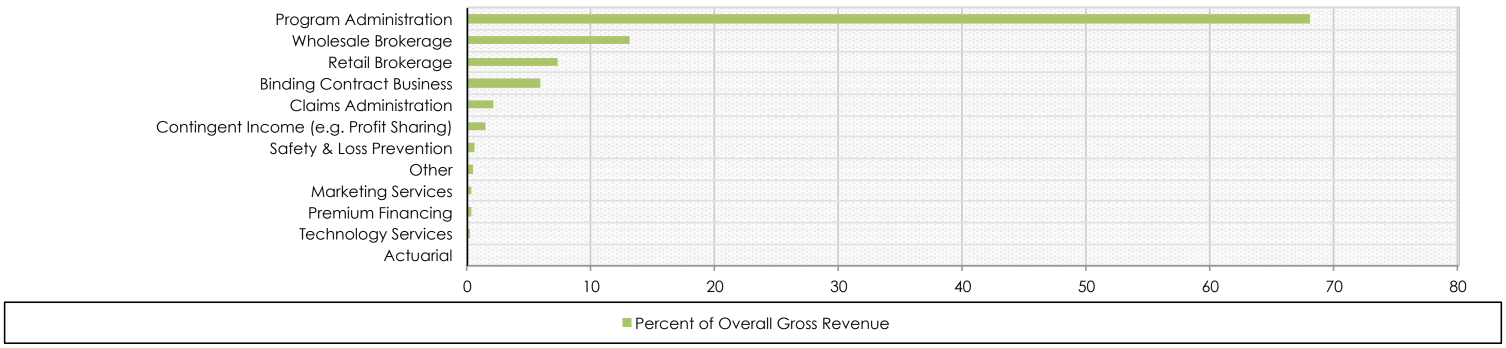
Unlike the previous year when mid-sized firms or those with revenue of between $20 million to $75 million fared better in terms of change in gross revenues, smaller firms or those with revenue of less than $20 million reported the highest proportion of revenue change over 10 percent in 2016.

PROGRAM ADMINISTRATORS REVENUE CHANGE BY SIZE OF ADMINISTRATOR

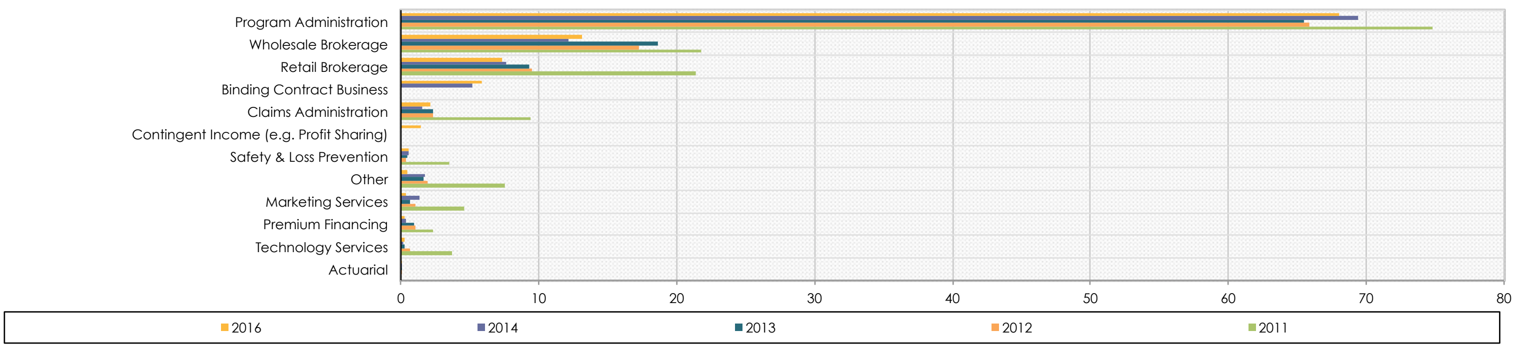


Consistent with the results of previous surveys, the biggest segment in terms of the approximate split of overall revenues was program administration. Wholesale brokerage and retail brokerage ranked second and third, respectively.

PERCENT OF OVERALL GROSS REVENUE

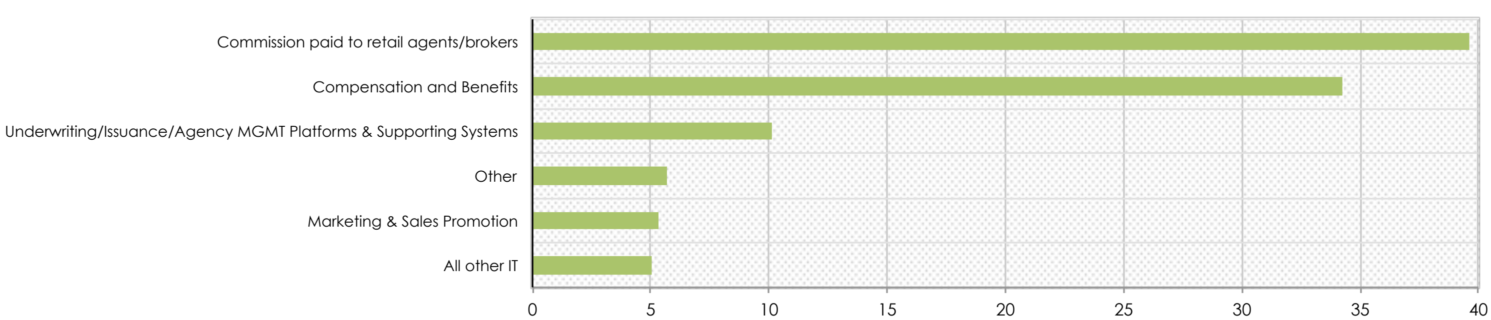


APPROXIMATE SPLIT OF OVERALL REVENUES



At 40 percent, commission paid to retail agents/brokers held the largest segment in terms of the approximate split of overall expenses for 2016, edging out compensation and benefits, which ranked first in 2014. For 2016, compensation and benefits ranked second at 34 percent. As with the previous survey, 10 percent went to underwriting/issuance/agency management platforms and supporting systems. Smaller portions went to marketing and sales promotion, all other IT expenses, and other expense items.

APPROXIMATE SPLIT OF OVERALL EXPENSES IN 2016 (IN %)



SERVICES DELIVERED BY SIZE OF ADMINISTRATOR

In reviewing whether the mechanism for delivering services 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. This is consistent with the results of the previous survey.

In the case of actuarial services, the large firms tend to either use a combination of options or outsource to a third-party. This is a deviation from the previous survey results which showed that big companies tend to deliver this service in-house. Mid-sized firms also tend to deliver this service through a combination of options or outsource it to a third-party provider. Smaller firms continue to deliver it through the carrier.

Big firms and small companies tend to provide safety and loss prevention in-house, while mid-sized firms tend to outsource through a third-party provider.

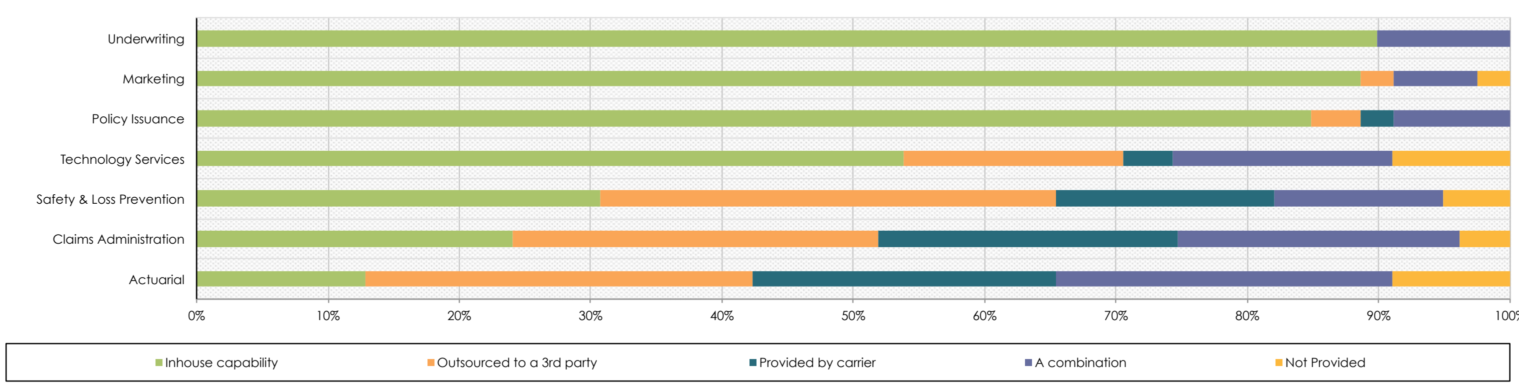
Big companies tend to use a combination of mechanisms when delivering claims administration services. For mid-sized and small companies, this service tends to be provided by a carrier or outsourced to a third-party provider.

Interestingly, the administrators who are delivering services through an in-house mechanism have increased for all services except actuarial from the prior survey. In the case of underwriting, while 84 percent of respondents delivered this service in-house in 2014, the percentage rose to 90 percent in 2016. The same trend is seen in other services: marketing (87 percent vs. 89 percent), policy issuance (76 percent vs. 85 percent), technology services (49 percent vs. 53 percent), safety and loss prevention (19 percent vs. 30 percent), and claims administration (15 percent vs. 24 percent).

"INCREASINGLY, PROGRAM ADMINISTRATORS ARE GETTING MORE SOPHISTICATED IN WHAT THEY OFFER AND TECHNOLOGY IS ALLOWING THEM TO BE ABLE TO OFFER MORE SERVICES, SO THEY ARE BRINGING MORE SERVICES IN-HOUSE IN AN EFFORT TO NOT BE DISPLACED," COMMENTED CHRISTOPHER PESCE, PRESIDENT OF MARITIME PROGRAM GROUP

"Increasingly, program administrators are getting more sophisticated in what they offer and technology is allowing them to be able to offer more services, so they are bringing more services in-house in an effort to not be displaced," commented Christopher Pesce, President of Maritime Program Group, on the trend of program administrators delivering more services through an in-house mechanism.

HOW SERVICES ARE DELIVERED



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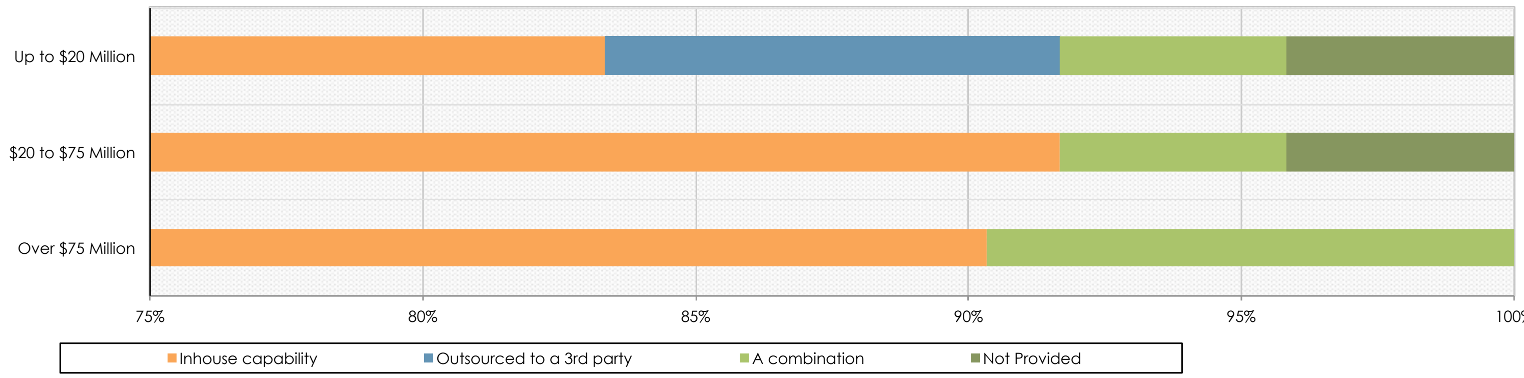
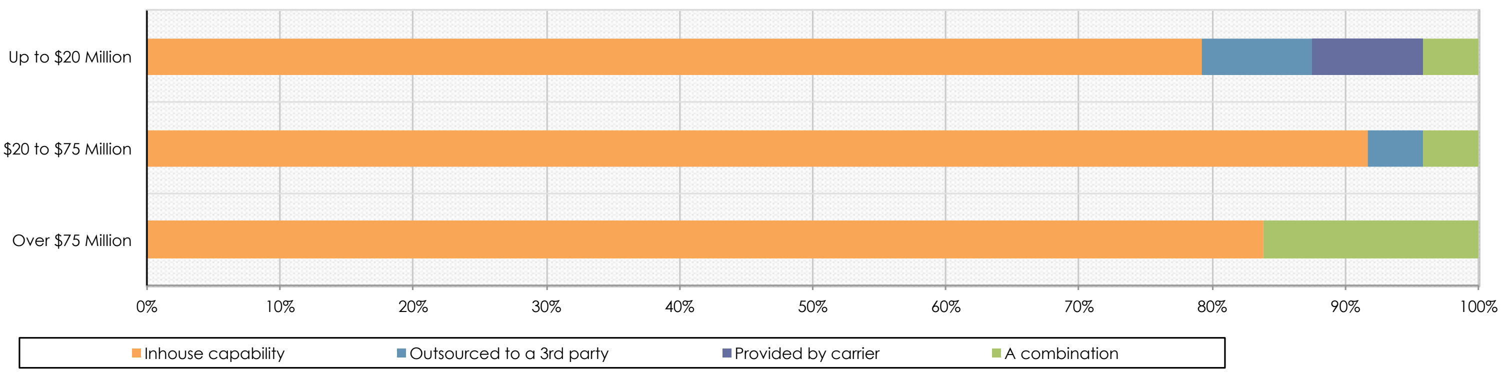
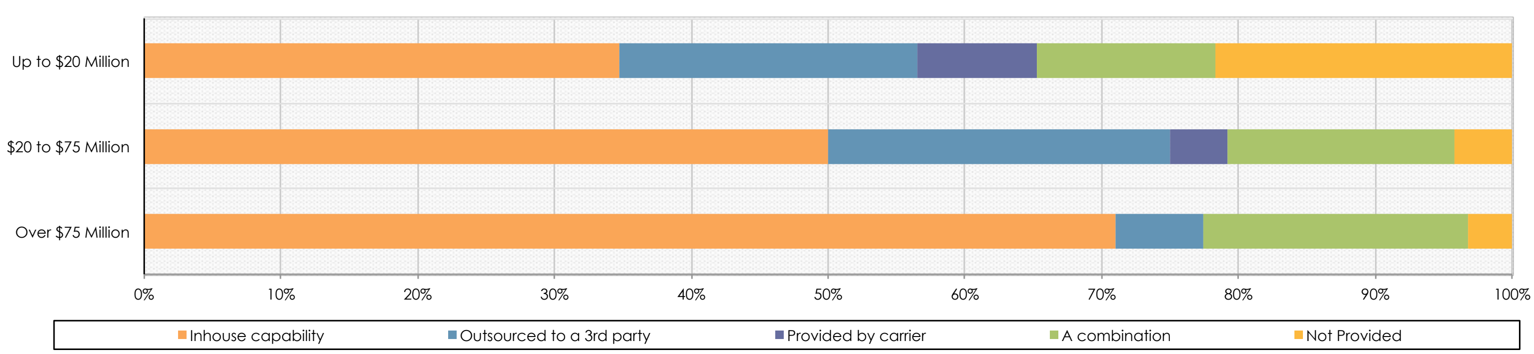
DELIVERY OF MARKETING SERVICES BY SIZE OF ADMINISTRATOR



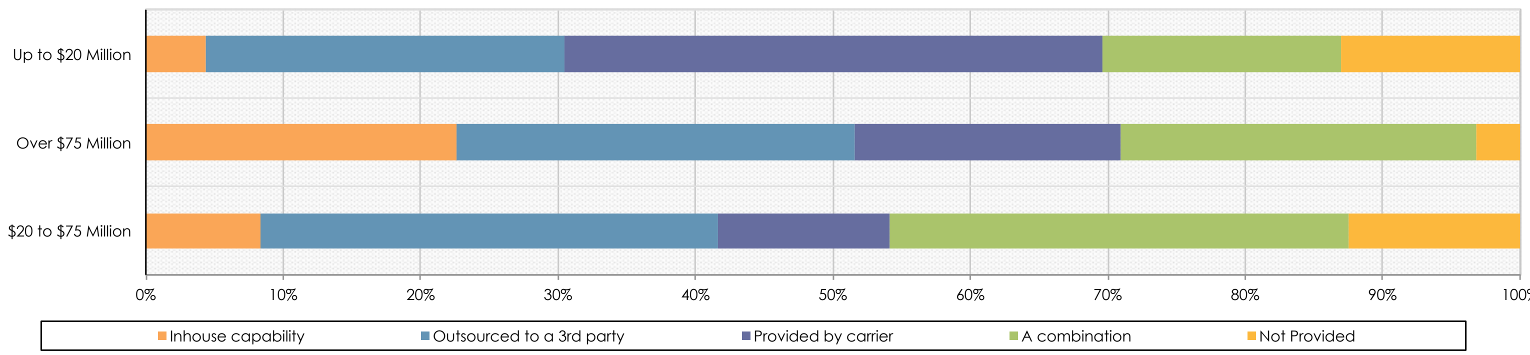
DELIVERY OF POLICY INSURANCE SERVICES BY SIZE OF ADMINISTRATOR



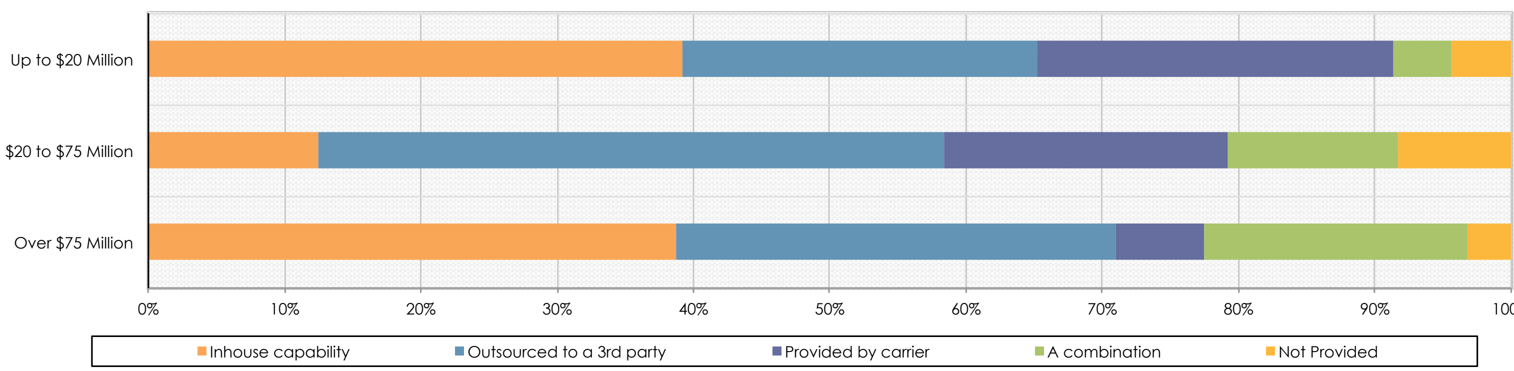
DELIVERY OF TECHNOLOGY SERVICES BY SIZE OF ADMINISTRATOR



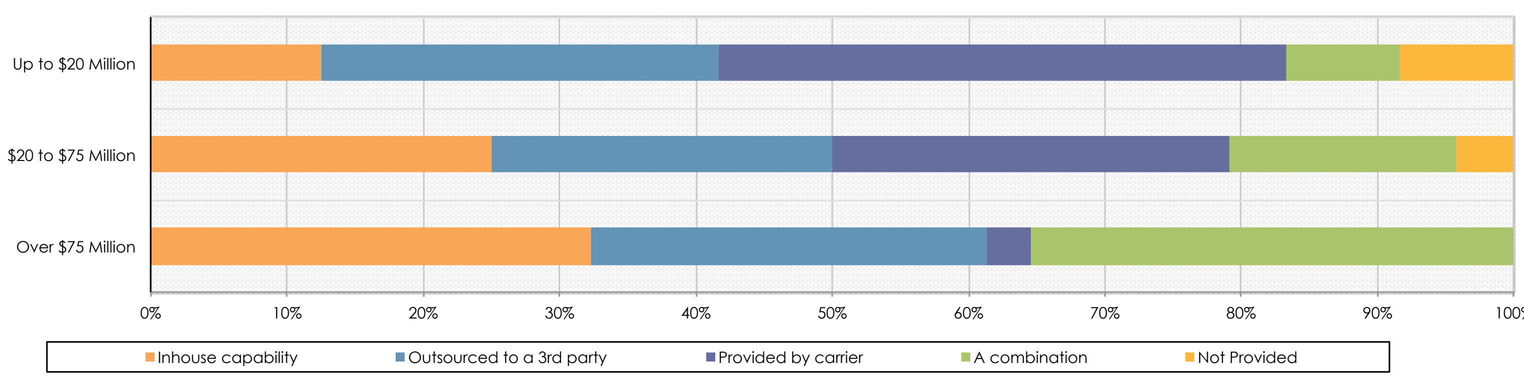
DELIVERY OF ACTUARIAL SERVICES BY SIZE OF ADMINISTRATOR



DELIVERY OF SAFETY & LOSS PREVENTION SERVICES BY SIZE OF ADMINISTRATOR



DELIVERY OF CLAIMS ADMINISTRATION SERVICES BY SIZE OF ADMINISTRATOR



CHANGE IN PROGRAM CARRIER

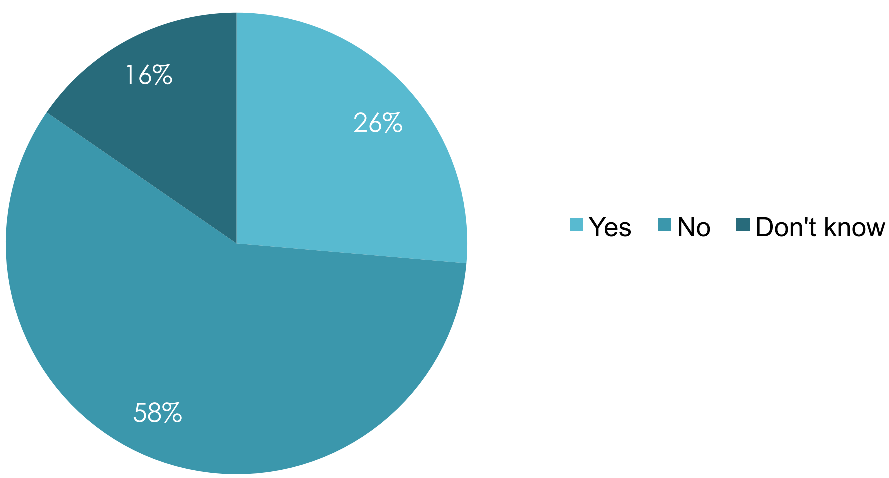
One of the major components in creating a successful program is the relationship between program administrators and carriers. As previous surveys have shown, administrators look for key attributes such as underwriting appetite for the program, scope of underwriting authority, responsiveness to referrals outside of underwriting guidelines, history of supporting programs long-term, flexibility of underwriting guidelines, claims management reputation, and many others.

For the 2017 survey, administrators were asked about their views on changing their program carriers. Do they plan to change their carriers in the near future? Have they changed their carriers? What moved them to change their carriers?

One administrator identified the “lack of insurance companies that have underwriters not knowing the business to many bean counters” as a problem.

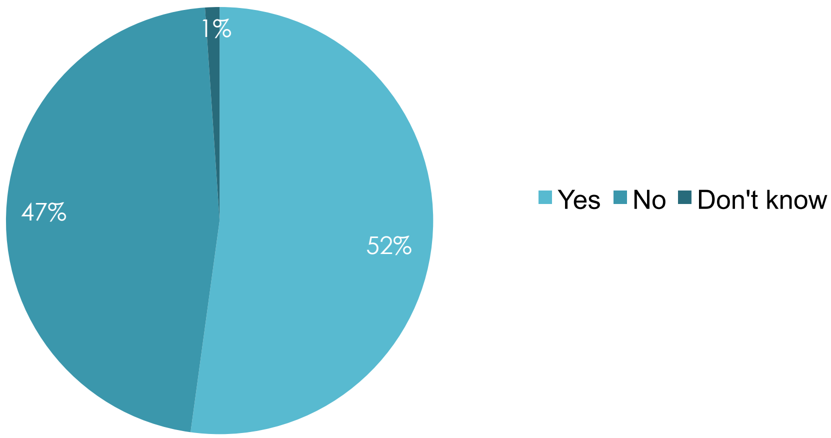
More than half of the administrators polled said they do not have plans on changing program carriers in the next 12 months, while a quarter of those surveyed reported planning on it. Almost of a fifth of those polled have no view on the question. Interestingly, one carrier commented, “We have invested in our underwriting talent with training focused on the insurance program business and ultimately have created partnerships leading to long-term relationships with our program administrators. We have not lost a program we wanted to keep.”

DO YOU PLAN ON CHANGING PROGRAM CARRIERS SOMETIME IN THE NEXT 12 MONTHS?



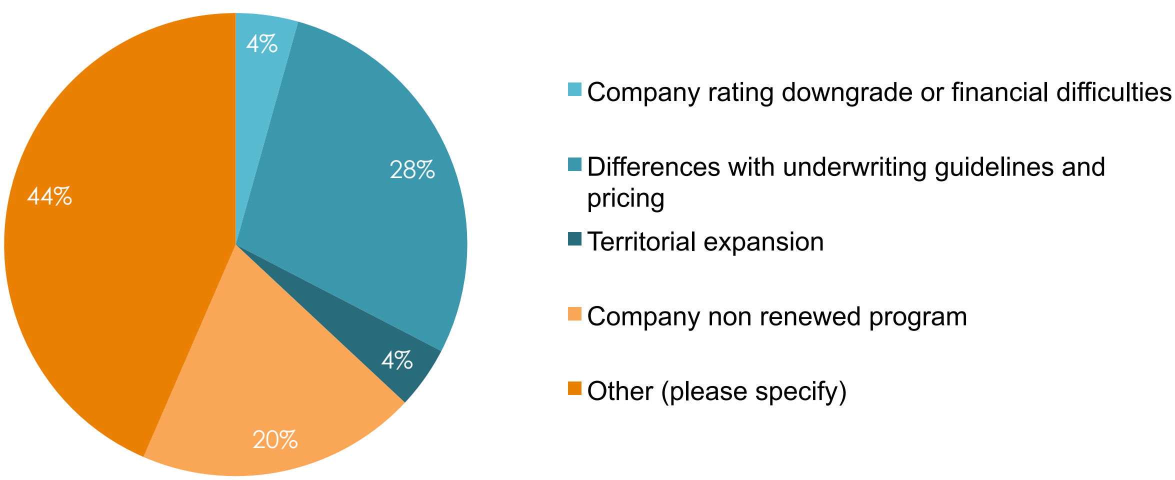
Fifty-two percent of administrators surveyed reported changing their program carriers in the past three years, while 47 percent did not change their carriers.

HAVE YOU CHANGED YOUR PROGRAM CARRIER IN THE PAST 3 YEARS?



Out of those who changed their carriers, 28 percent said they did so because of differences with underwriting guidelines and pricing. Twenty percent said their companies non-renewed the program, 4 percent said the change was due to territorial expansion, while another 4 percent said they changed their carriers because of a company rating downgrade or financial difficulties. Nearly half of the administrators cited other reasons like management changes, the carrier purchased a competitor, the carrier got out of the program business, and poor claims handling.

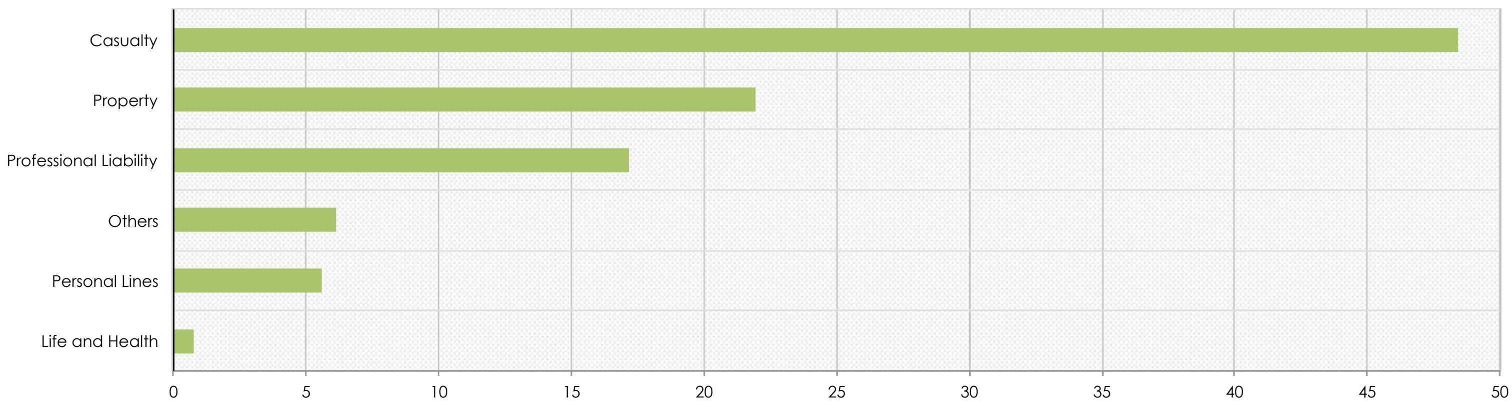
FOR WHAT REASON DID YOU CHANGE PROGRAM CARRIERS IN THE PAST 3 YEARS?



UNDERWRITING FOCUS

The administrators polled were asked about the approximate breakdown of their underwriting focus. An average of their responses show casualty topping the list at 48 percent and property ranking second with 22 percent. Professional liability came in third at 17 percent. Personal lines was at 6 percent, while life and health was at 1 percent. The remaining 6 percent included others like inland marine, workers compensation, auto, and environmental.

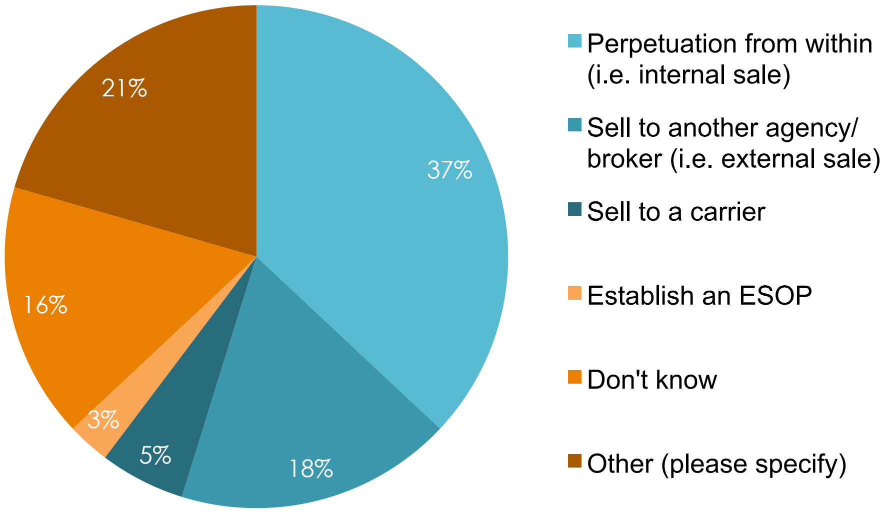
WHAT IS THE APPROXIMATE PERCENTAGE BREAKDOWN OF YOUR UNDERWRITING FOCUS?



AGENCY PERPETUATION STRATEGY

A well-thought-out perpetuation plan is crucial to a company's survival particularly amid a challenging market. Respondents were asked about their agency perpetuation strategy. Thirty-seven percent of those polled perpetuate from within using an internal sale. Eighteen percent of administrators surveyed said they sell to another agency or broker, 5 percent sell to a carrier, and 3 percent established an ESOP (Employee Stock Ownership Plan. Twenty-one percent mentioned other strategies including using a financial partner, a wholly owned subsidiary, or private equity. The remaining 16 percent said they do not know their agency perpetuation strategy.

AGENCY PERPETUATION STRATEGY



INSURERS

DEMOGRAPHICS

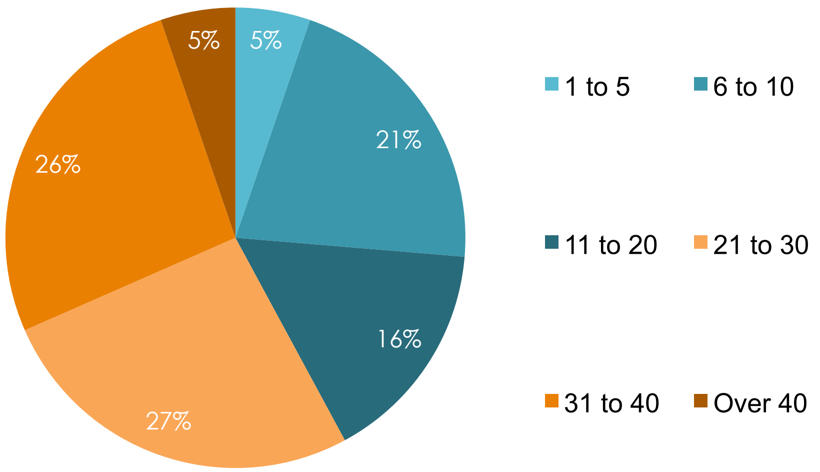
To give a carrier perspective, insurer members of the TMPAA were invited to participate in the survey. Forty-six insurers completed parts, if not all, of the sections in the questionnaire. This compares to 52 carrier respondents in 2014, 45 respondents in 2013, 43 participants for 2012, and 34 carrier respondents in 2011.

PROGRAM INFORMATION

All respondents identified themselves as insurance carriers active in the program space. According to TMPAA, an insurance carrier delegates binding and underwriting authority to program administrators with whom they have a contractual partnership. TMPAA identifies companies as program carriers if they have at least two current programs. All insurer respondents confirmed that they all have at least two current programs.

Forty-three percent of the carriers surveyed insure 11 to 30 distinct programs. Twenty-six percent of the respondents insure up to 10 distinct programs, another 26 percent insure 31 to 40 distinct programs, while 5 percent insure more than 40 distinct programs.

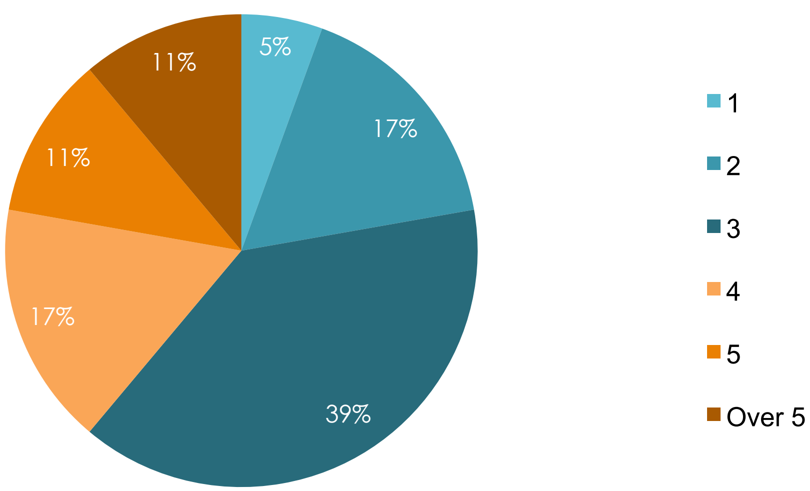
NUMBER OF DISTINCT PROGRAMS INSURED



The average number of programs managed by each of the respondents' program underwriters is 26.

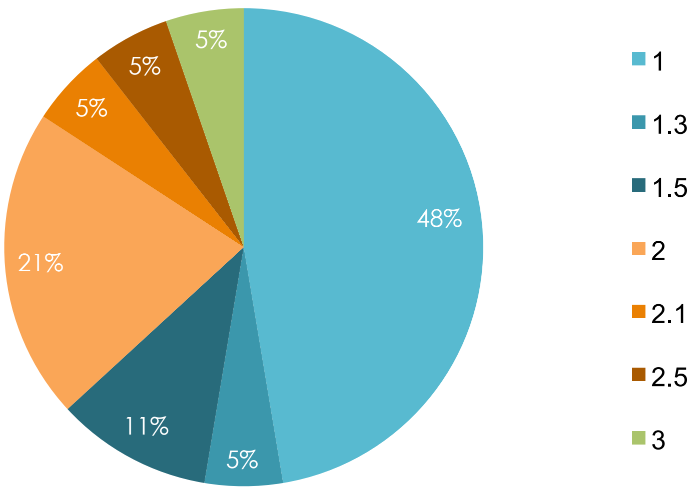
Thirty-nine percent of carriers said their program underwriters manage an average of three programs, 17 percent said two, another 17 percent said four, 11 percent said five, another 11 percent said more than five, and 5 percent said one program.

AVERAGE NUMBER OF PROGRAMS PER PROGRAM UNDERWRITER



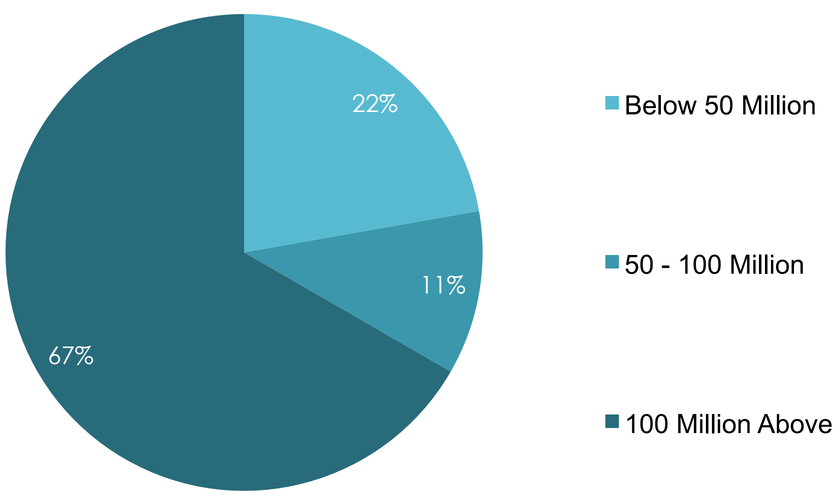
Asked about the average number of programs offered on their company's paper per program administrator, 48 percent of the carriers said one, 21 percent said two, 11 percent said 1.5, and 5 percent each said 1.3, 2.1, 2.5, and 3.

AVERAGE NUMBER OF PROGRAMS PER ADMINISTRATOR



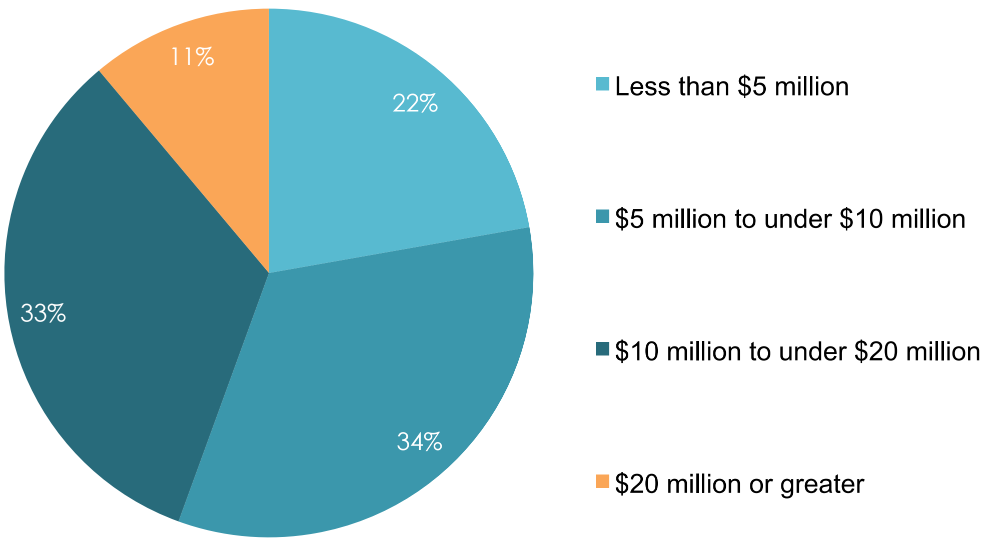
Sixty-seven percent of the carriers polled reported having total gross premiums of more than $100 million, 22 percent said their total gross premiums are below $50 million, and 11 percent said $50 million to $100 million.

TOTAL GROSS PREMIUMS



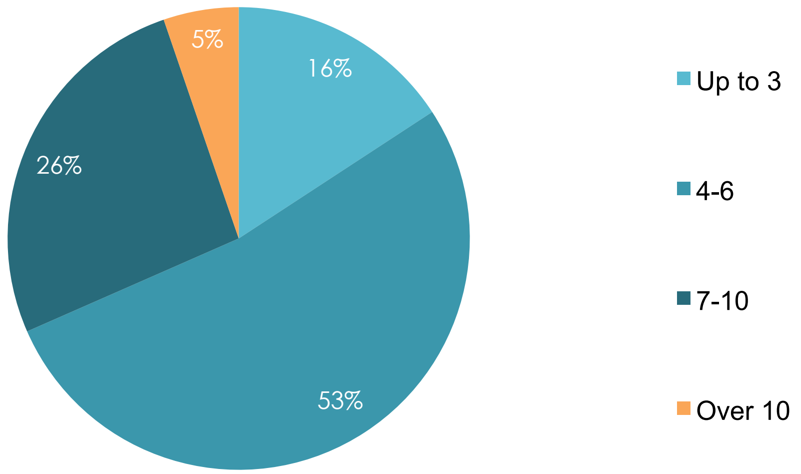
Thirty-three percent of the carriers surveyed estimated their average premium per program at $10 million to under $20 million, while another 33 percent pegged it at $5 million to under $10 million. Twenty-two percent estimate their average premium per program at 22 percent, while the remaining 11 percent pegged it at less than $5 million.

AVERAGE PREMIUM PER PROGRAM



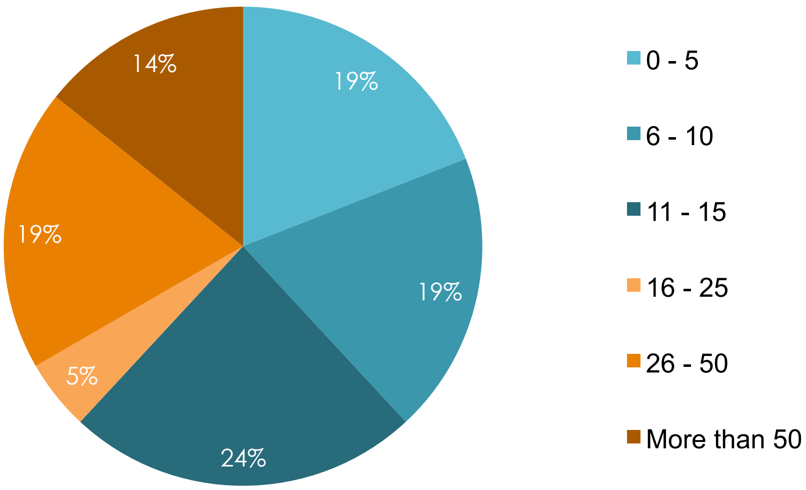
Fifty-three percent of carriers polled say the average tenure of their programs is 4 to 6 years, while 26 percent say 7 to 10 years. For 16 percent of carriers, the average tenure of programs is up to 3 years; while for the remaining 5 percent it is over 10 years.

AVERAGE TENURE OF PROGRAMS



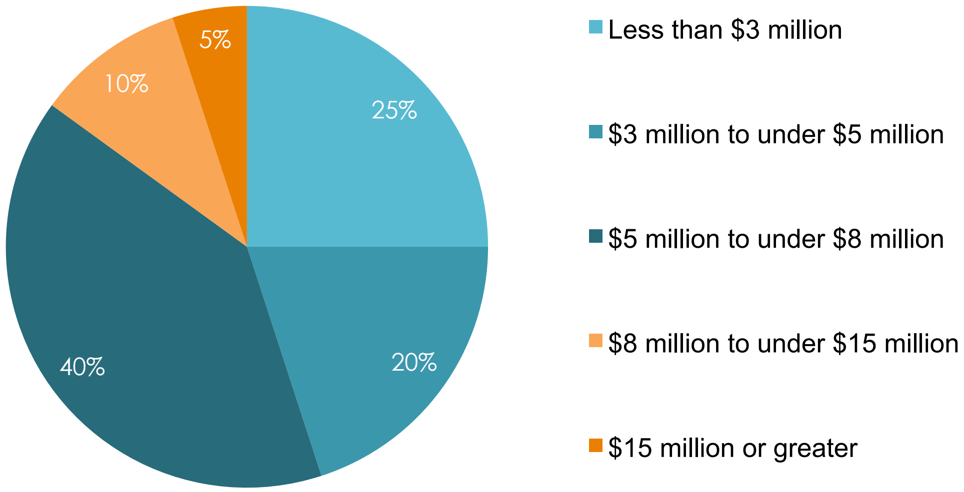
Twenty-two percent of the carrier respondents have 11 to 15 employees, 19 percent employ 26 to 50 people, another 19 percent have 6 to 10 employees, and 19 percent have up to 5 employees. Fourteen percent said they have more than 50 employees dedicated to the program business, while 5 percent have 16 to 25 employees.

NUMBER OF EMPLOYEES DEDICATED TO THE PROGRAM BUSINESS



Asked to provide their minimum requirement for existing premium volume to consider a program, 40 percent of the carrier respondents said $5 million to under $8 million, 25 percent said less than $3 million, 20 percent said $3 million to under $5 million, 10 percent said $8 million to under $15 million, and the remaining 5 percent said $15 million or greater.

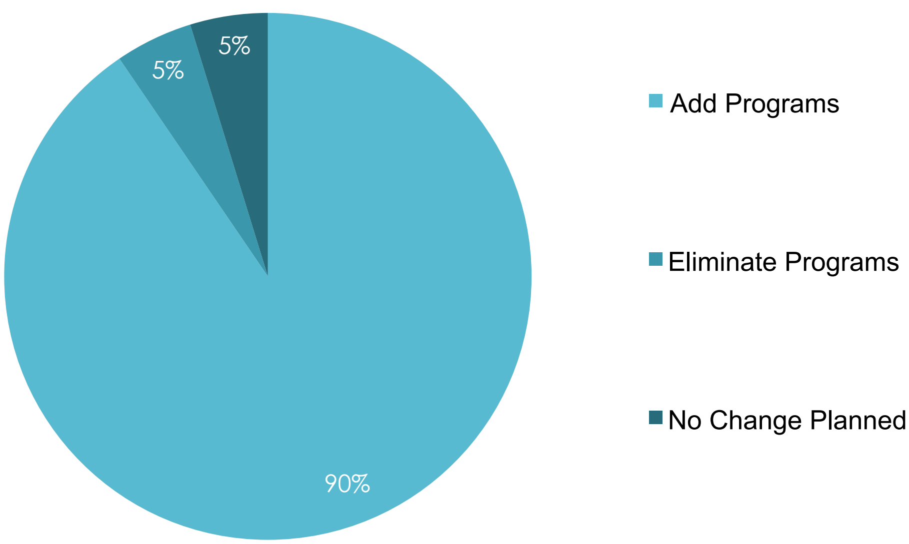
MINIMUM REQUIREMENT FOR EXISTING PREMIUM VOLUME TO CONSIDER A PROGRAM



PROGRAM STRATEGY

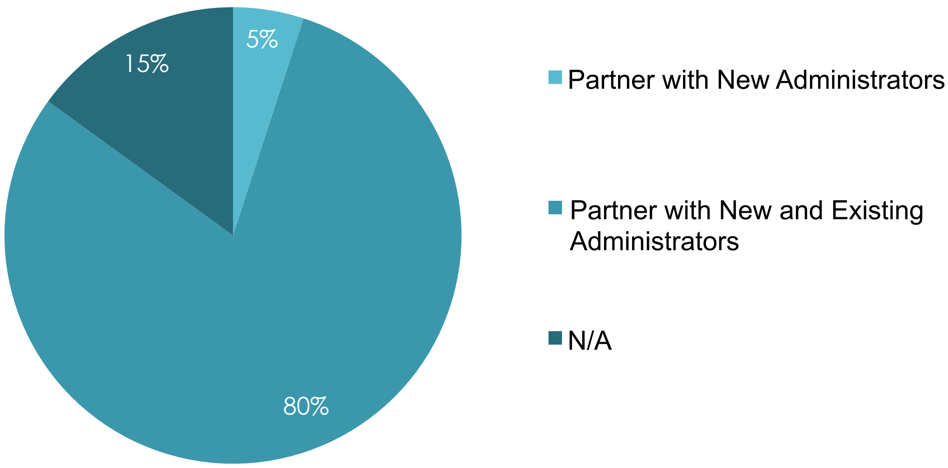
Consistent with the previous survey, the majority of carriers polled plan to expand within the next three years. Their program strategy also includes plans to add programs over that period.

WHAT IS YOUR PROGRAM STRATEGY OVER THE NEXT 3 YEARS?



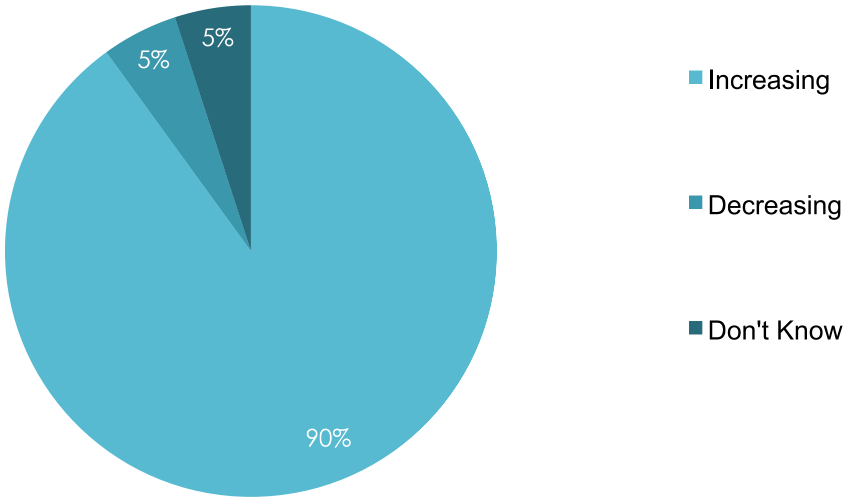
Of those who plan to expand, 80 percent said their strategy is to partner with new and existing administrators, 5 percent will partner with new administrators, while 15 percent have no view on what strategy to use.

IF YOU PLAN TO ADD PROGRAMS OVER THE NEXT 3 YEARS, WHAT WILL BE YOUR STRATEGY?



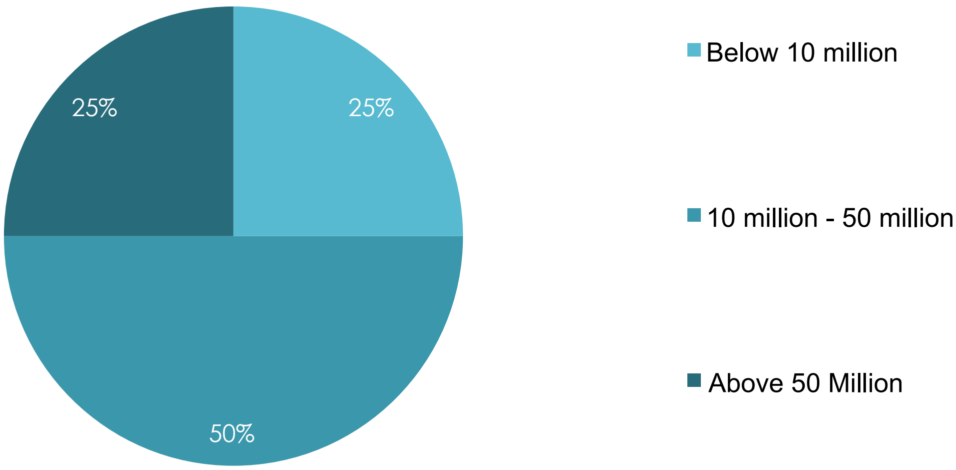
Ninety percent of the respondents said they anticipate increasing the amount of premium written in the next three years, 5 percent anticipate decreasing the amount of premium written, while the remaining 5 percent have no view on the change in amount of premium written.

DO YOU ANTICIPATE INCREASING OR DECREASING PREMIUMS WRITTEN IN THE NEXT 3 YEARS?



Asked about the rough amount by which they anticipate increasing or decreasing their written premiums in the next three years, 50 percent of the carriers said $10 million to $50 million, 25 percent said above $50 million, and another 25 percent said below $10 million.

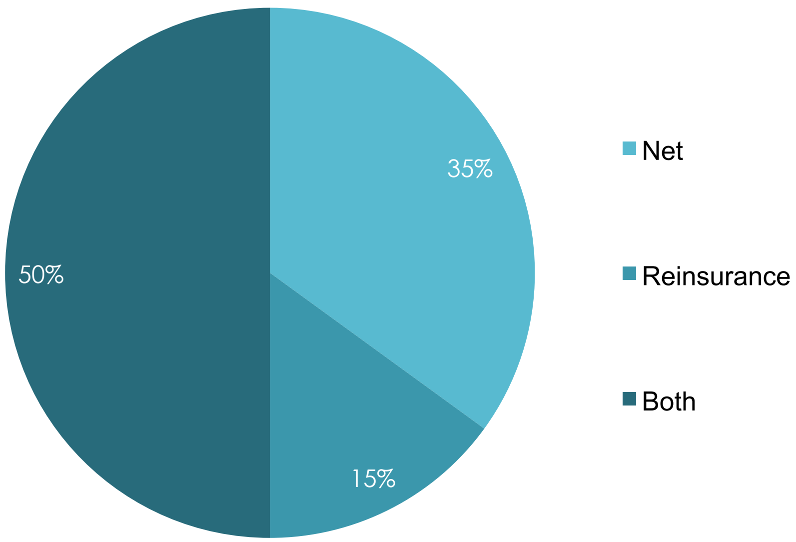
ANTICIPATED CHANGE IN WRITTEN PREMIUMS IN THE NEXT THREE YEARS



INDUSTRY PROJECTION

Asked whether they have the tendency to take programs net or use reinsurance, 50 percent of the respondents said they use both, 35 percent said tend to take programs net, while the remaining 15 percent said they use reinsurance.

DO YOU TAKE PROGRAMS NET OR USE REINSURANCE?

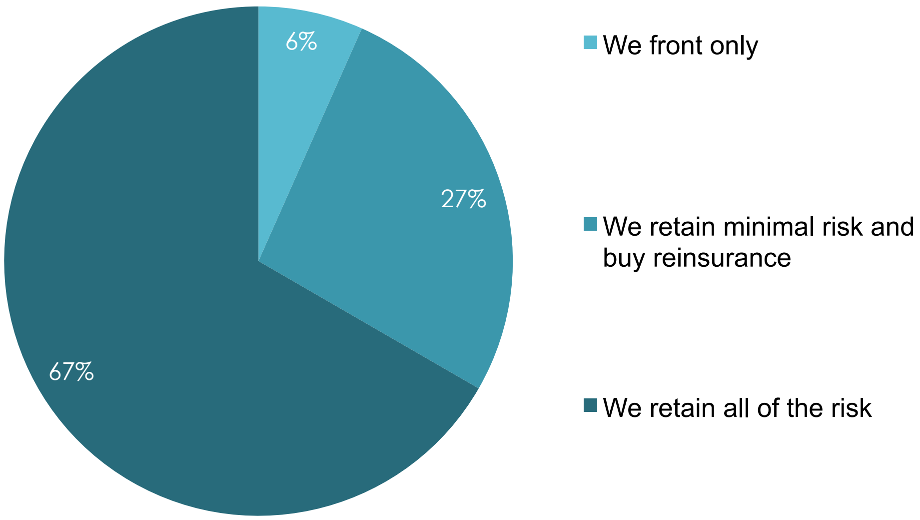


Of those who reported using reinsurance, 47 percent responded "all of the above" when asked how the reinsurance they use is structured. This means they are structured either across all programs or as part of a corporate program. Forty-one percent said it is structured by the program, while 18 percent said it is structured as part of a corporate program. The remaining 12 percent responded across all programs.

RISK APPETITE

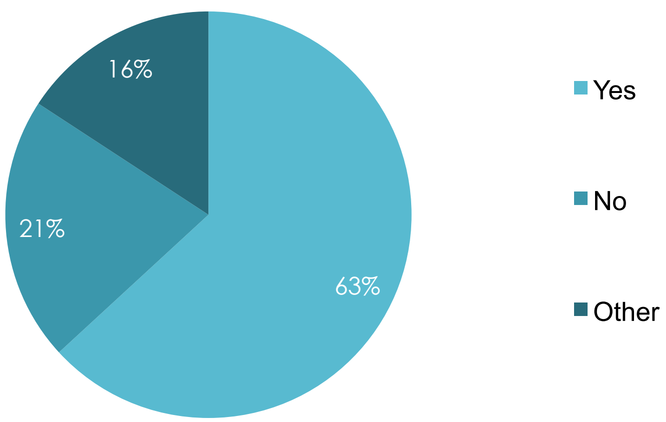
The carriers were asked how their companies are structured in terms of risk appetite. According to 67 percent of respondents, they retain all the risk. Twenty-seven percent of the carriers polled said they retain minimal risk and buy reinsurance, while 6 percent said they front only.

HOW IS YOUR COMPANY STRUCTURED IN TERMS OF RISK APPETITE?



Sixty-three percent of carriers polled allow program administrators to administer claims, while 21 percent do not. The remaining 16 percent responded “Other.”

DO YOU ALLOW YOUR PROGRAM ADMINISTRATORS TO ADMINISTER CLAIMS?



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

DATA COLLECTION AND MANAGEMENT

"We find ourselves mining our data much more than in the past to better understand our business and better drive the business." This statement by one of the administrator respondents highlights the importance of data collection management in the program business.

In previous surveys, both administrators and carriers have identified data collection and analysis as a key challenge faced by the industry. Respondents to the 2017 leg of the TMPAA survey continue to see data as one of the important issues in the program business.

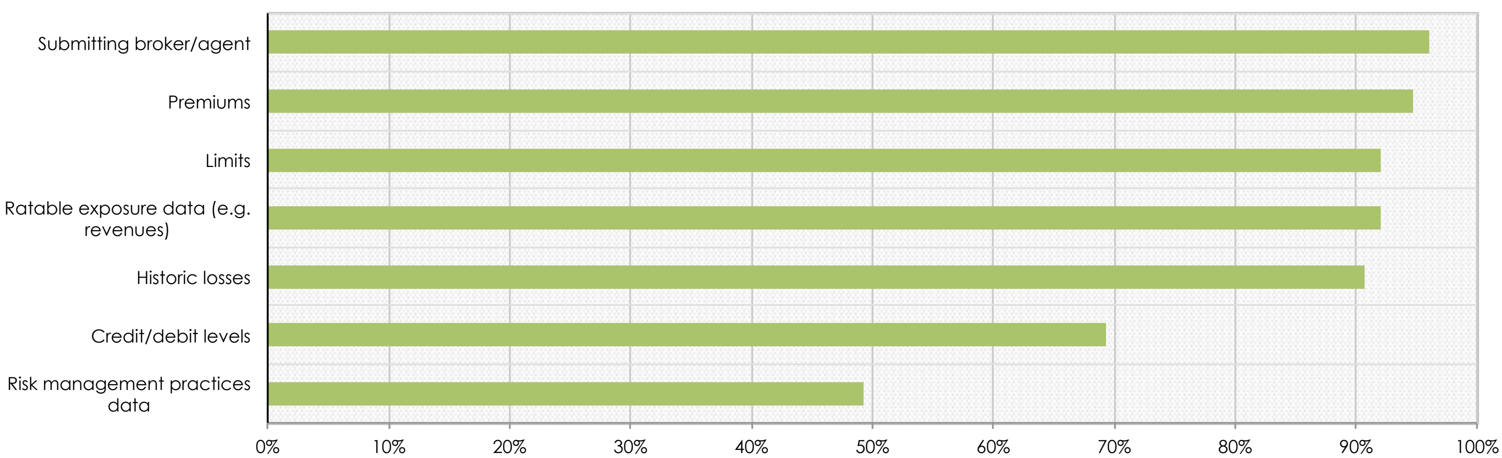
One administrator said, "It is becoming more and more important to pull, organize and analyze internal data against external data – those that do not, will be left behind."

According to a carrier respondent, "Data collection is a priority for both program administrators and carriers. Both are expanding their budgets for data collection and analytics."

What types of data do administrators and carriers collect?

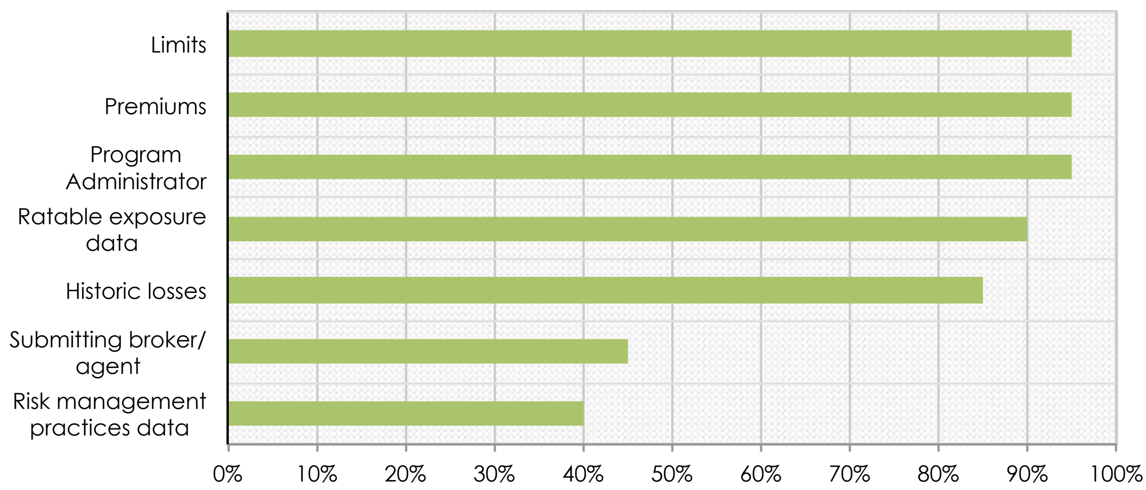
As with previous surveys, administrators and carriers are in sync when it comes to the type of data they collect. Asked about the type of data they collect, the top responses for administrators are submitting broker/agent (96 percent), premiums (95 percent), limits (92 percent), and ratable exposure data (92 percent).

TYPES OF APPLICATION/PROPOSAL DATA COLLECTED



For carriers, limits, premiums, and program administrator topped the list at 95 percent each. Ratable exposure data ranked second at 90 percent.

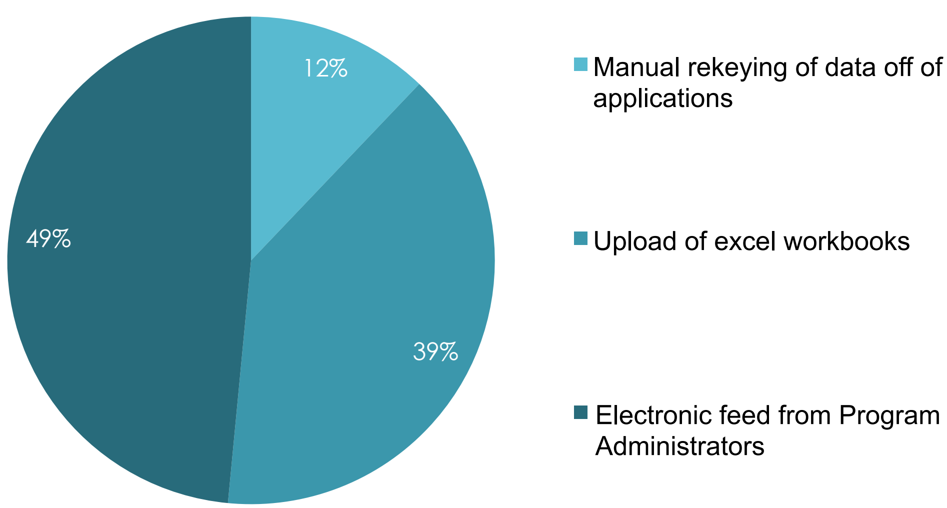
WHAT KIND OF PROGRAM DATA DO YOU COLLECT?



Data Entry

Carriers were asked how they capture program data electronically. Forty-nine percent of respondents use electronic feed from program administrators, 39 percent upload Excel workbooks, and 12 percent said data is manually rekeyed off of applications.

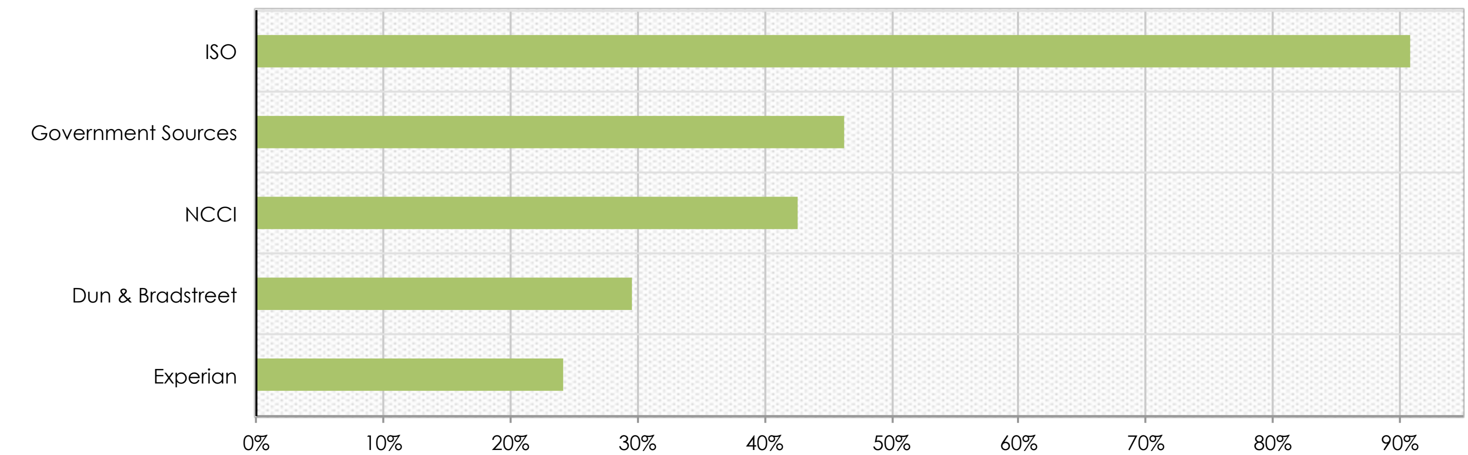
HOW DO YOU CAPTURE PROGRAM DATA ELECTRONICALLY?



Data Use

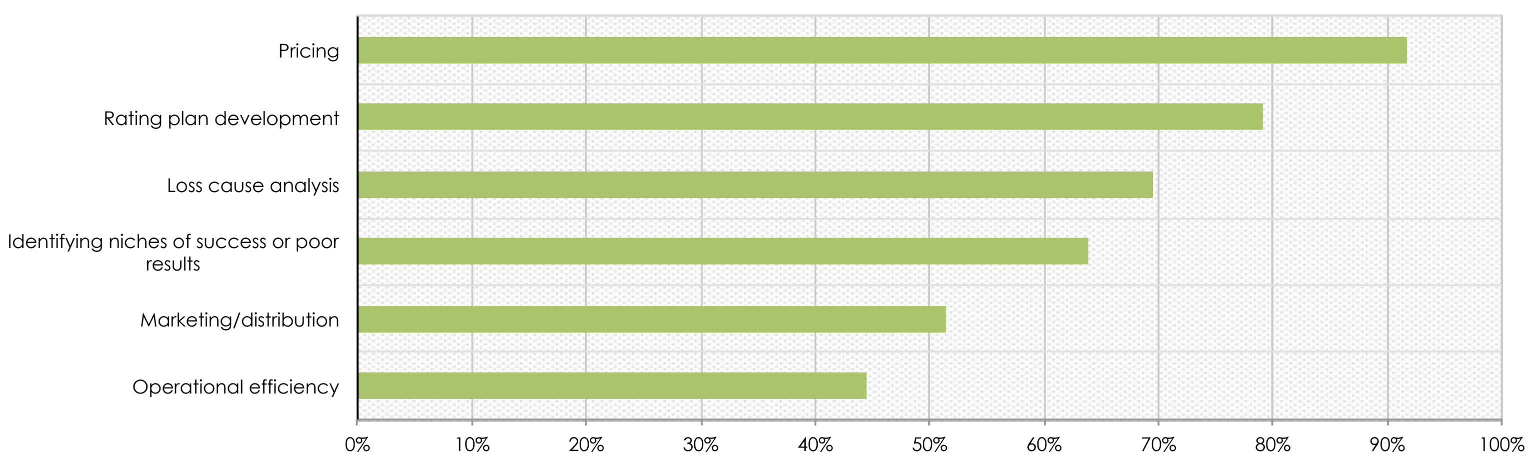
Program administrators reported using data from a number of external parties. Ninety-one percent of those polled use data from Verisk's Insurance Services Office (ISO), 46 percent use data from government sources, 43 percent from the National Council on Compensation Insurance (NCCI), 30 percent from Dun & Bradstreet, and 27 percent from Experian.

USE OF DATA FROM EXTERNAL PARTIES



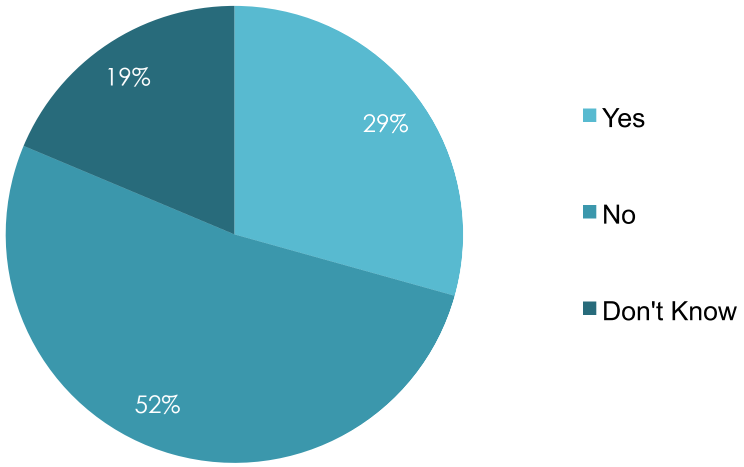
Ninety-two program administrators use data for pricing. Seventy-nine percent of respondents use data for pricing, 70 percent use it for loss cause analysis, 64 percent use it for identifying niches of success or poor results, 51 percent use it for marketing/distribution. Nearly half of the respondents reported using data for operational efficiency.

HOW DATA IS USED



In the area of analytics, 52 percent of the administrators polled said they do not follow the NAIC and individual state developments on securing customer data. Twenty-nine percent of respondents said they follow the NAIC and individual state developments, while the remaining 19 percent had no view.

DO YOU FOLLOW NAIC/STATE DEVELOPMENTS ON SECURING DATA?



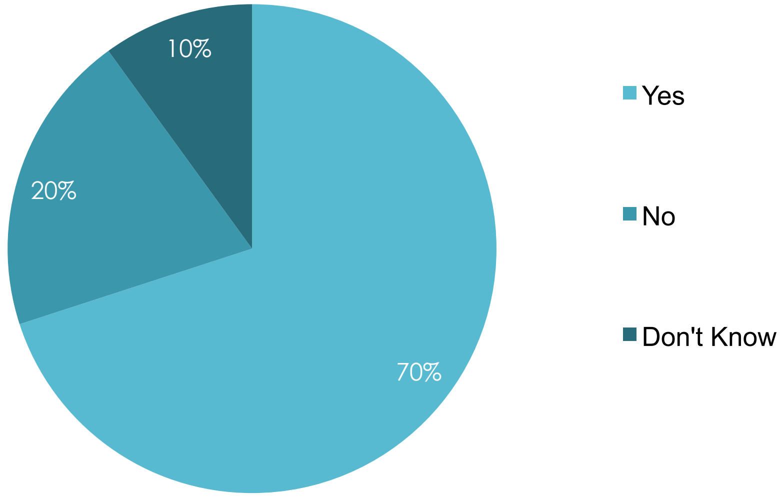
Data Sharing

Seventy percent of carriers reported having data sharing agreements with program administrators, while 20 percent have no such agreements. The remaining 10 percent have no view on the question.

Commenting on trends encountered regarding data collection and management, one administrator said, “Carriers need to be better partners with their PA in terms of collaborating on data sharing. It is vital to the profitability of both partners. But most carriers are very reluctant to share or provide access to data in a way that is efficient, if at all. Therefore, we have to double enter nearly all data.”

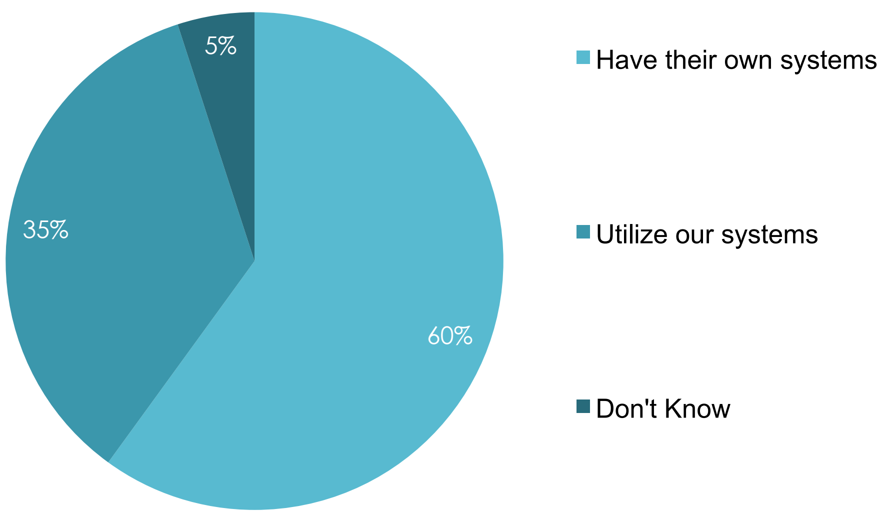
“CARRIERS NEED TO BE BETTER PARTNERS WITH THEIR PA IN TERMS OF COLLABORATING ON DATA SHARING. IT IS VITAL TO THE PROFITABILITY OF BOTH PARTNERS. BUT MOST CARRIERS ARE VERY RELUCTANT TO SHARE OR PROVIDE ACCESS TO DATA IN A WAY THAT IS EFFICIENT, IF AT ALL. THEREFORE, WE HAVE TO DOUBLE ENTER NEARLY ALL DATA.”

DO YOU HAVE DATA SHARING ARRANGEMENTS WITH YOUR PAs?



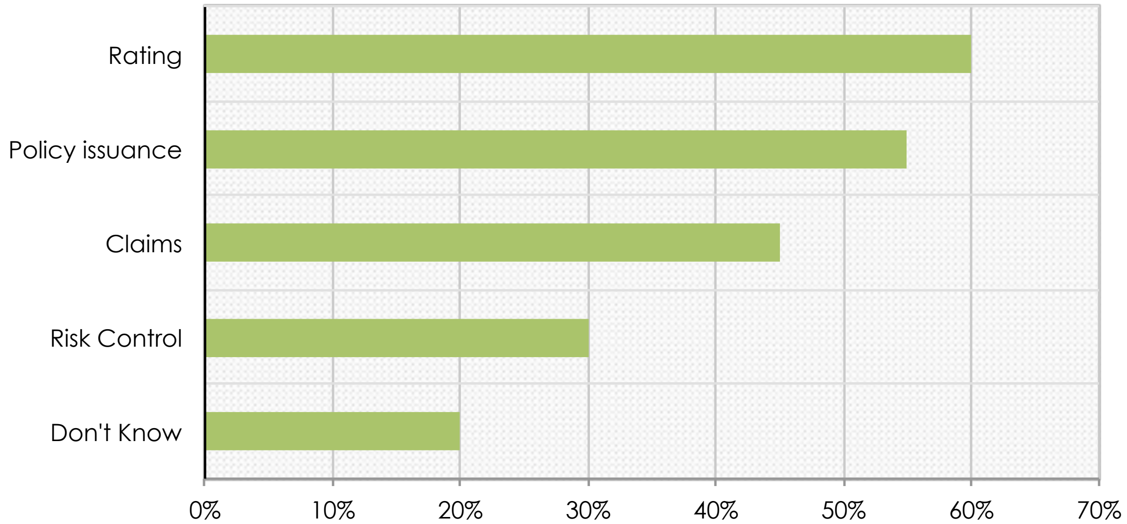
Asked if they prefer program administrators to have their own systems or utilize their systems, 60 percent of carriers polled said they prefer that the administrators have their own systems. Thirty-five percent said they prefer that the administrators use the carrier's systems.

DO YOU PREFER PAs HAVE THEIR OWN SYSTEMS OR UTILIZE YOURS?



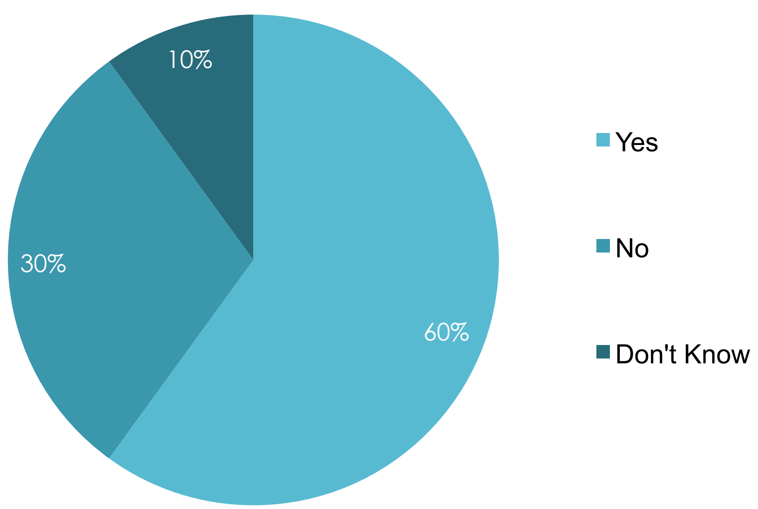
Carriers were asked about the IT solutions they can provide to program administrators. Sixty percent said they can provide rating, 55 percent can provide policy issuance, 45 percent can provide claims, and 30 percent can provide risk control.

CAN YOU PROVIDE THE FOLLOWING IT SOLUTIONS FOR PROGRAM ADMINISTRATORS?



Sixty percent of the carriers surveyed provide detailed claims feed to program administrators, while 30 percent do not provide such feed. The remaining 10 percent had no view.

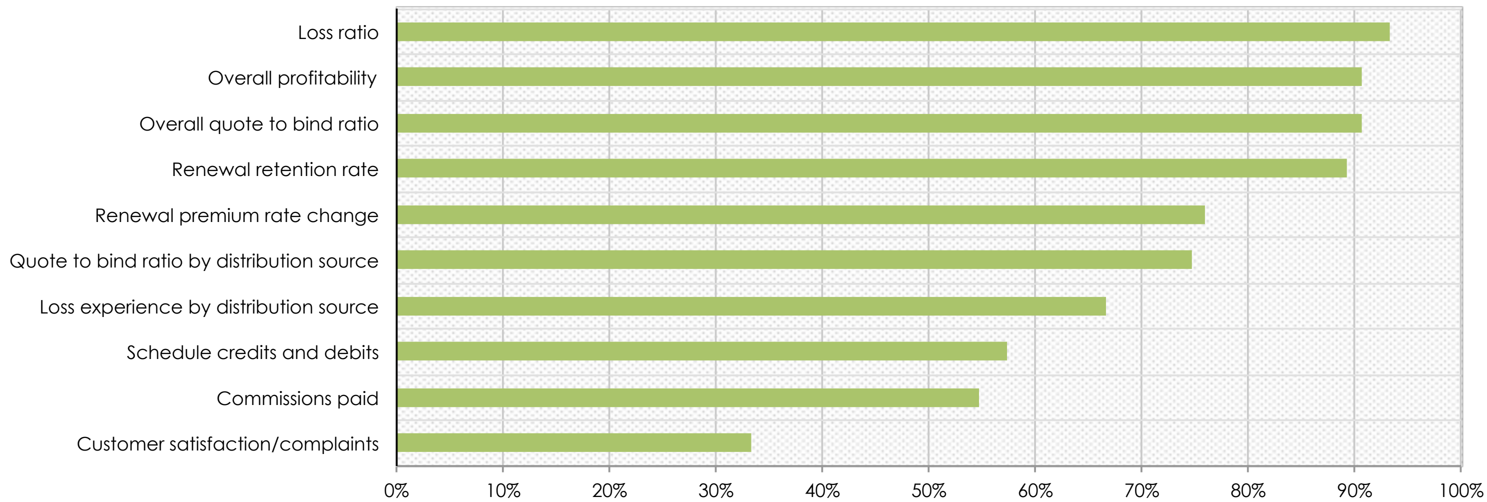
DO YOU PROVIDE A DETAILED CLAIMS FEED TO YOUR PROGRAM ADMINISTRATORS?



Performance Metrics

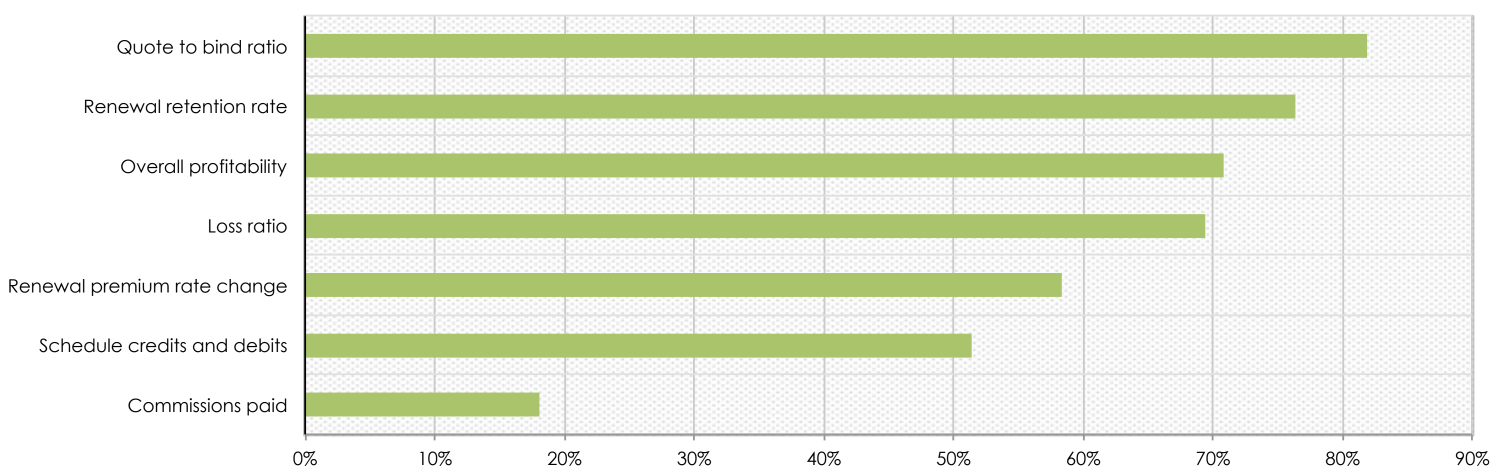
Asked what performance metrics they review for their individual programs, the top responses of administrators include loss ratio, overall profitability, and overall quote to bind ratio.

PERFORMANCE METRICS USED FOR INDIVIDUAL PROGRAMS



On performance metrics reviewed for individual underwriters, the top responses were quote to bind ratio, renewal rate exchange, and overall profitability.

PERFORMANCE METRICS USED FOR INDIVIDUAL UNDERWRITERS

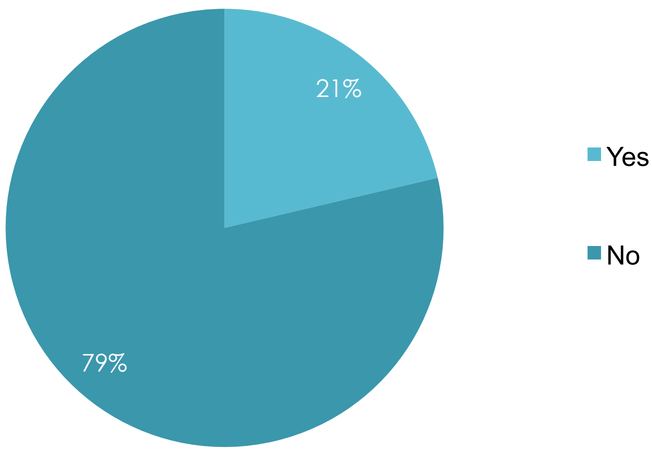


Obtaining Data

Seventy-nine percent of administrators surveyed do not have difficulty obtaining solid, quality premium and loss data from their existing programs, while 21 percent reported having difficulty.

One administrator who responded yes, said "Carriers have a great deal of difficulty feeding data back to us from their internal systems and databases." Another respondent added that the difficulty stems from a "disorganized and understaffed insurance company." Yet another respondent lamented that "detailed loss data is virtually impossible to obtain from many carriers."

DO YOU HAVE DIFFICULTY OBTAINING SOLID, QUALITY PREMIUM AND LOSS DATA FROM YOUR EXISTING PROGRAMS?



BIG DATA

A key trend being witnessed in the insurance industry is technology disruption. Among industries, insurance has been one of the slowest in terms of uptake of new technology. Even amid the emergence of the Internet, most insurance buyers still rely heavily on legacy systems. Recent years, however, have seen an increasing use of insurance technology to improve customer experience, increase efficiency in operations, and enhance risk management. Companies are exploring the potential benefits that come from technologies such as big data.

Software firm SAS defines big data "as the large volume of data – both structured and unstructured – that inundates a business on a day-to-day basis. But it's not the amount of data that's important. It's what organizations do with the data that matters. Big data can be analyzed for insights that lead to better decisions and strategic business moves."

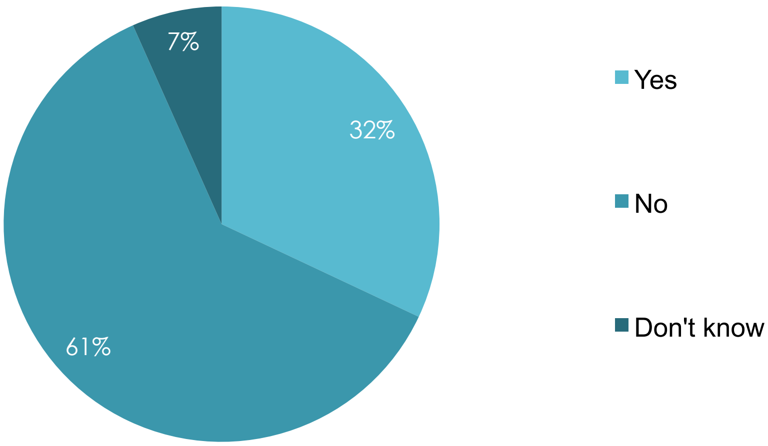
Ever since the concept gained momentum in the 2000s, companies across various industries have been studying how the technology will impact their operations.

What do administrators and carriers think of this technology?

Asked if they use big data for analytical or decision making purposes, 61 percent of administrators said no, while 32 percent said yes. The remaining respondents have no view on the question. Those who said yes use it to compare industry results with their own to validate trends, track routes for loss analysis, and underwriting.

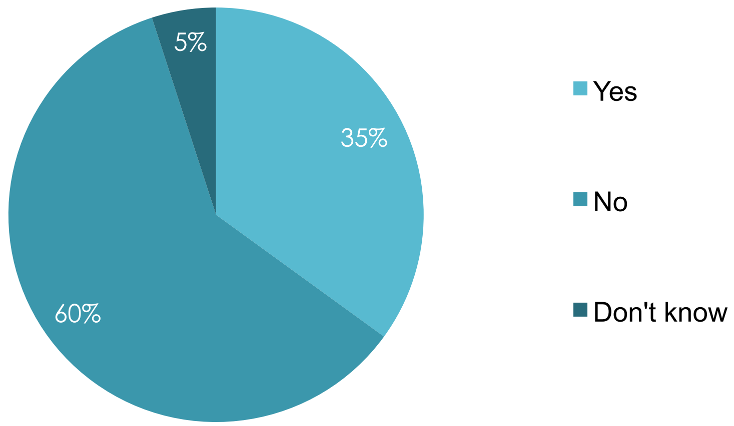
According to one administrator, “We build the models and work with our carrier to make certain they understand. However, we are not building models in the way you use the term. We study trends to understand causation and the weight of different operational characteristics, from which we adjust our pricing and selection criteria. Our goal is not to find the best risks, but to understand the weight that each characteristic has with respect to loss frequency and severity so we can price each individual risk to a pre-determined loss ratio. Instead of filling risks into a price, we fit the price to any risk.”

PAs’ USE OF BIG DATA FOR ANALYTICAL OR DECISION MAKING PURPOSES



Carriers seem to have a similar view when it comes to using big data. Only 35 percent of carriers polled said they use big data for analytical or decision making purposes, while 60 percent said no. The remaining 5 percent have no view in the question.

CARRIERS' USE OF BIG DATA FOR ANALYTICAL OR DECISION MAKING PURPOSES



PREDICTIVE MODELING

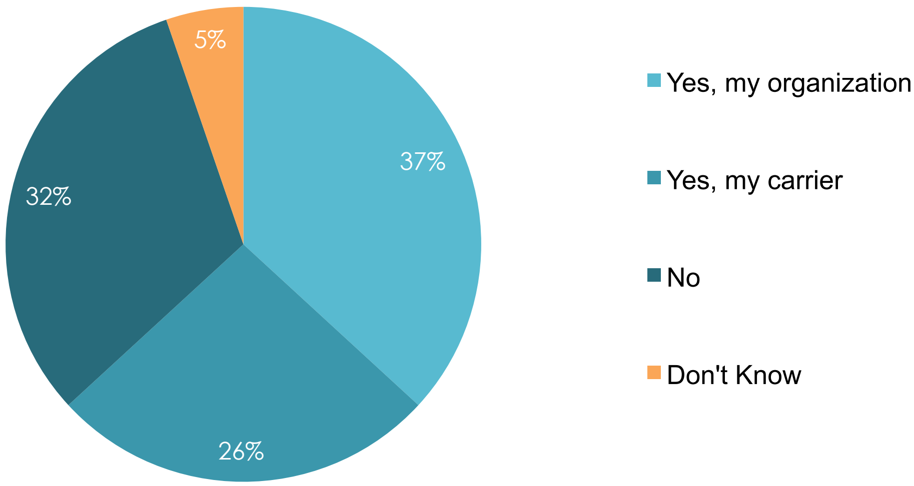
"The term predictive analytics has become an industry buzzword and is gathering a lot of attention these days. We started doing extensive data analysis in the mid-80s long before the term was ever coined. We see the trend positive but are also noticing a lot of rookie mistakes. A lot of public data sources are filled with bad data, or have models built on bad assumptions. We also see a lot of conclusions from data models that do not appear to understand the difference between causation and correlation. However, in spite of the errors we currently see being made with data there is no question that GAs need to understand how to use data to be successful in the future," one administrator who participated in ***The TMPAA State of Program Business Study 2017*** said.

Advisen Ltd. and TMPAA asked administrators and carriers a series of questions on predictive modeling and their responses show limited uptake among administrators. They have yet to fully see its impact on program profitability.

Use of Predictive Modeling

Thirty-seven percent of program administrators polled engage in predictive modeling compared to 26 percent in 2014. Twenty-six percent said their carriers use predictive modeling. Thirty-two percent said they do not engage in predictive modeling compared to 40 percent in 2014. The remaining 5 percent have no view.

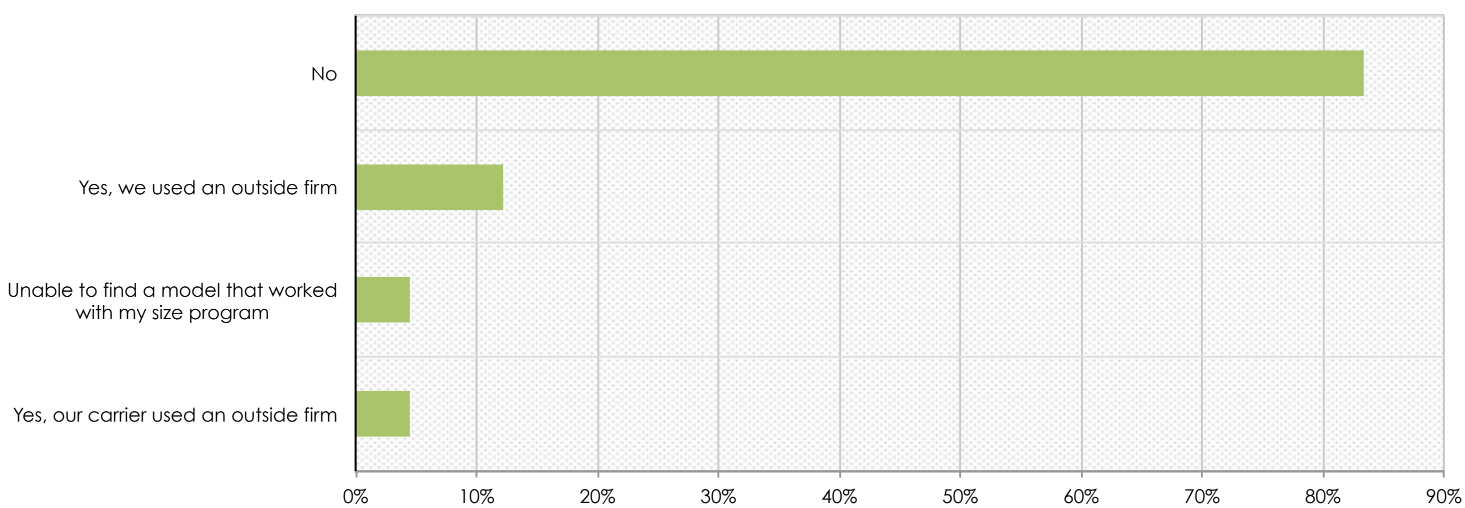
USE OF PREDICTIVE MODELING BY ORGANIZATION OR CARRIER



Use of Third-party Assistance in Building Predictive Models

Eighty-three percent of the administrators polled said that they and their carriers did not use an outside firm to assist them in building predictive models. Twelve percent of those polled said they employed an outside firm. Five percent said their carrier used an outside firm. The remaining respondents were unable to find a model that worked with the size of their program.

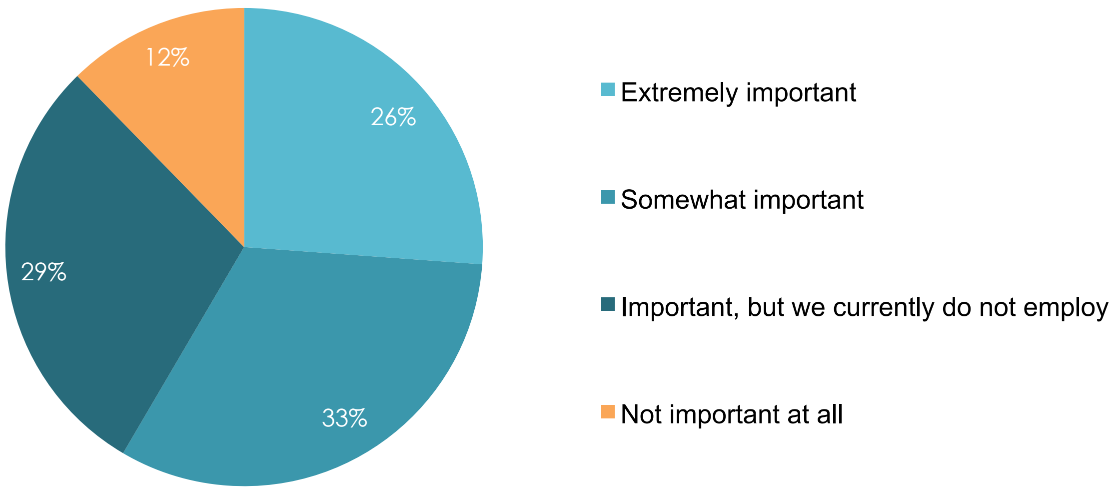
USE OF OUTSIDE FIRM IN BUILDING PREDICTIVE MODELS



Importance of Predictive Models to Underwriting Strategy

Only a fourth of the program administrators polled see predictive modeling as extremely important to their underwriting strategy. For 32 percent of the respondents, predictive modeling is somewhat important to their underwriting strategy. Twenty-nine percent feel it is important, but they do not currently employ predictive modeling. The remaining 12 percent feel it is not at all important.

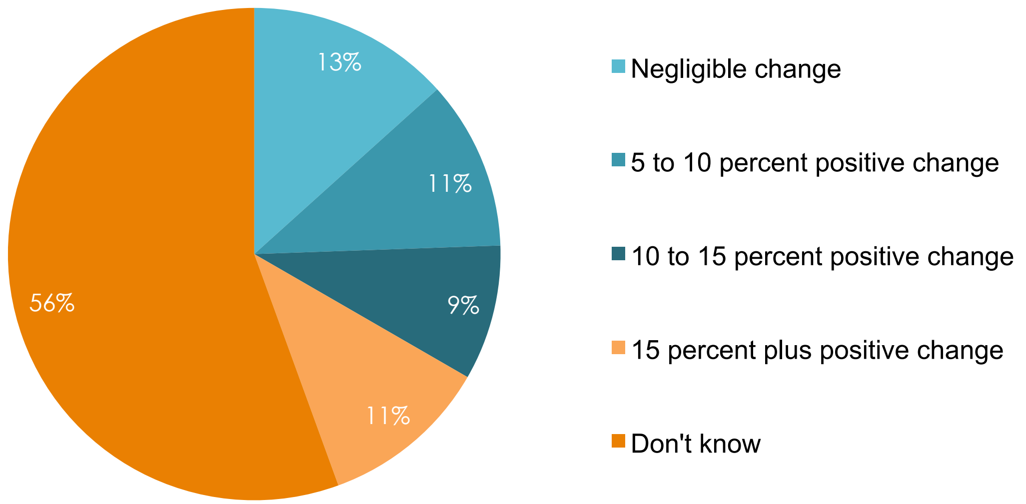
IMPORTANCE OF PREDICTIVE MODELING TO UNDERWRITING STRATEGY



Impact on Program Profitability

Administrators remain divided when it comes to their views about the impact of predictive models on program profitability. Only a fifth of administrators saw a positive change. Of these program administrators, 11 percent said there was a 5 to 10 percent positive change, another 11 percent saw a 15 percent plus positive change, and 9 percent reported a 10 to 15 percent positive change. Fifteen percent of the respondents said there was negligible change, 56 percent of the respondents had no view. None of those polled reported negative change.

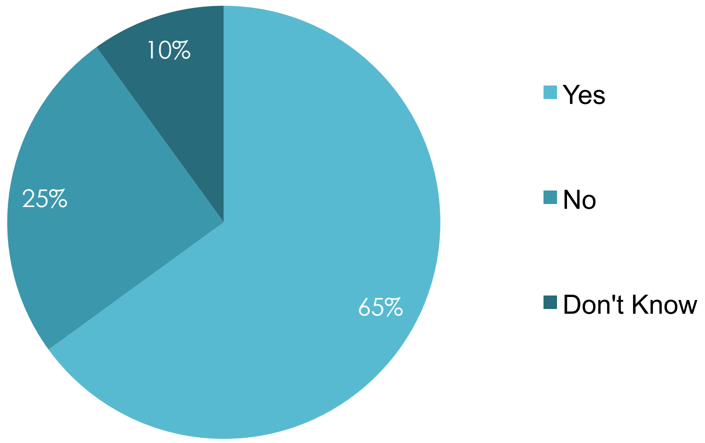
IMPACT OF PREDICTIVE MODEL USE ON PROGRAM PROFITABILITY



Carriers' Use of Program Analytics

Sixty-five percent of carriers polled use program analytics, 25 percent do not, while the remaining 10 percent had no view. One carrier reported good initial results.

DOES YOUR COMPANY USE PROGRAM ANALYTICS?



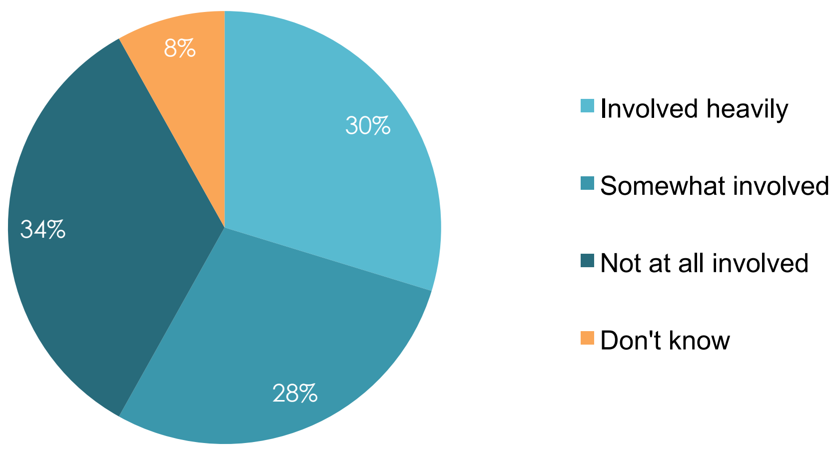
INVOLVEMENT WITH INSURTECH

Insurtech refers to the use of technology innovations designed to squeeze out savings and efficiency from the current insurance industry model.

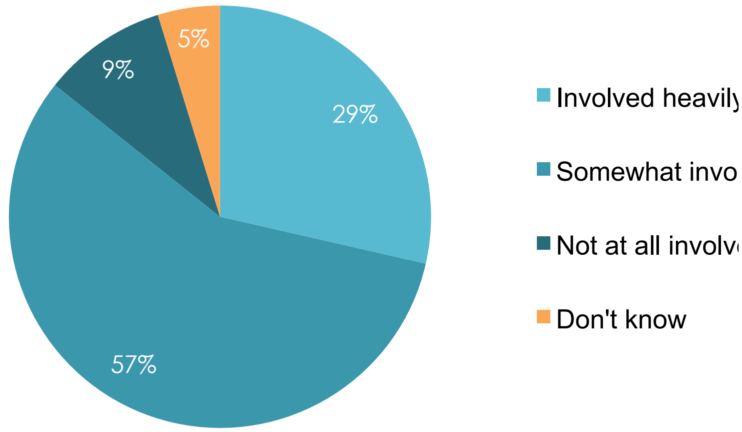
Recent reports show that insurance industry players are increasingly aware of the insurtech revolution. Still, many insurers remain wary of its impact on the traditional insurance distribution model. Their main question is: Is insurtech a threat or an opportunity?

The TMPAA State of Program Business Study 2017 asked both administrators and carriers about their involvement with insurtech. Responses show that carriers are more involved in the technology. While an almost equal number of administrators (30 percent) and carriers (29 percent) said that they are involved heavily in insurtech, a greater number of carriers (57 percent) reported being somewhat involved in insurtech compared to administrators (28 percent). While 34 percent of administrators said that they are not at all involved in insurtech, only 10 percent of carriers reported not being involved.

PAs' INVOLVEMENT WITH INSURTECH

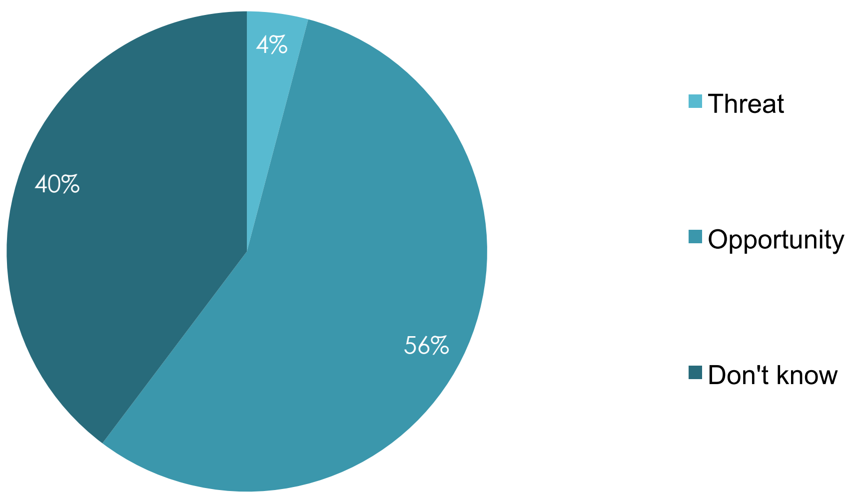


CARRIERS' INVOLVEMENT WITH INSURTECH

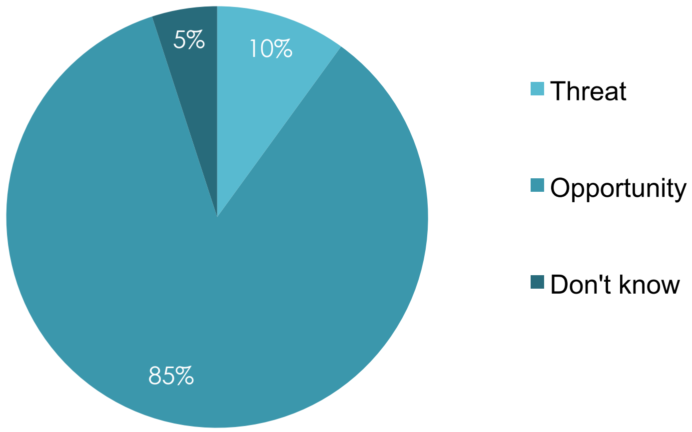


A greater number of carriers (85 percent) also see insurtech as an opportunity compared to administrators (56 percent). Ten percent of carriers see insurtech as a threat, while 5 percent said they do not know. In the case of administrators, 4 percent see insurtech as a threat, while the remaining 40 percent have no view.

PAs' VIEW OF INSURTECH AS A THREAT OR AN OPPORTUNITY TO BUSINESS



CARRIERS' VIEW OF INSURTECH AS A THREAT OR AN OPPORTUNITY TO BUSINESS



CYBER COVERAGE

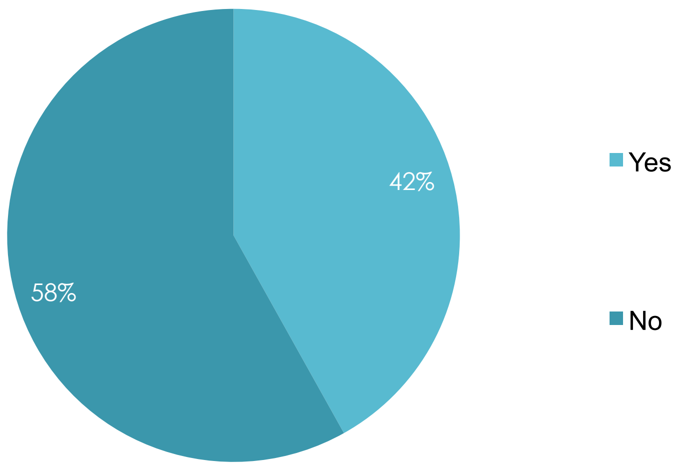
The cyber security landscape continues to rapidly change and businesses of all sizes and across all industries are increasingly exposed. In recent years, cyber has been the biggest organic growth opportunity for the commercial insurance industry. Correctly identifying cyber risks in a book of business and offering adequate coverage to mitigate potential losses have become a growing challenge among administrators.

For the first time since the survey started in 2010, Advisen Ltd. and TMPAA asked respondents about their practices related to cyber coverage.

Forty-two percent of the administrators polled said they offer a standalone cyber policy, while 58 percent said they do not.

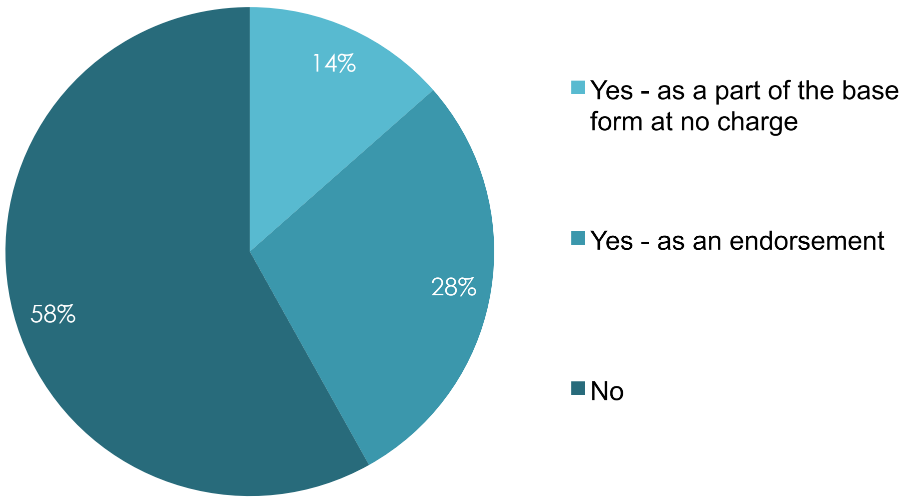
When administrators were asked about the markets they use for cyber insurance, their top responses were Lloyds, Beazley, AIG, and Great American.

DO YOU OFFER A STANDALONE CYBER POLICY?



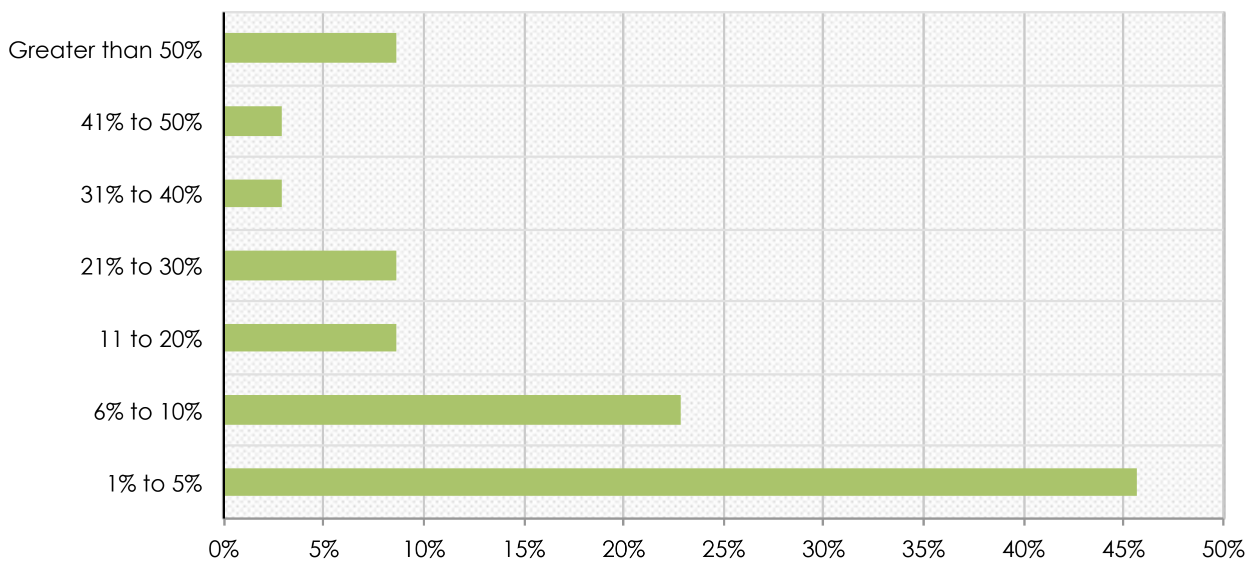
Asked if they include cyber as part of their standard package policy, 58 percent said no. Twenty-eight percent of the administrators surveyed said they do as an endorsement, while 14 percent said they include it as a part of the base form at no charge.

ARE YOU INCLUDING CYBER AS PART OF YOUR STANDARD PACKAGE POLICY?



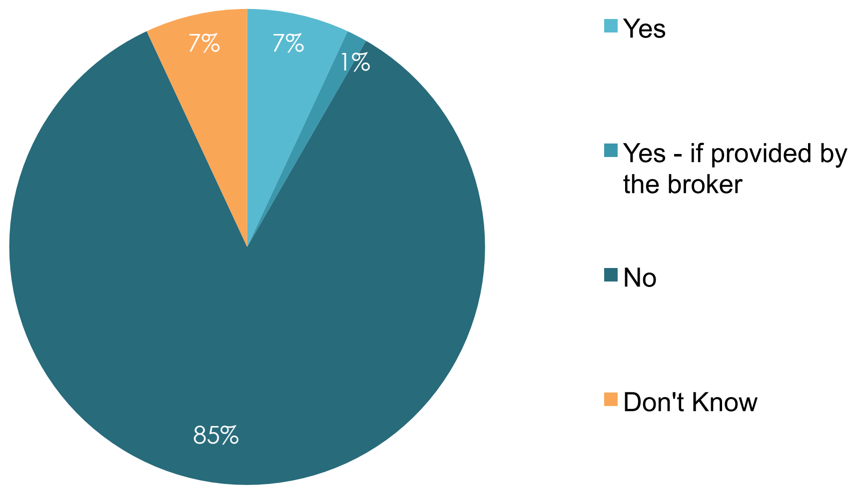
To the question "Where it's optional, approximately what percentage of your insureds purchase cyber coverage?" The answers indicated a low rate of uptake as 46 percent of administrators polled said 1 percent to 5 percent, while 23 percent said 6 percent to 10 percent. Eight percent each responded greater than 50 percent, 21 percent to 30 percent, and 11 percent to 20 percent. Three percent each responded 31 percent to 40 percent and 41 percent to 50 percent.

WHERE IT'S OPTIONAL, APPROXIMATELY WHAT PERCENTAGE OF YOUR INSUREDS PURCHASE CYBER COVERAGE?



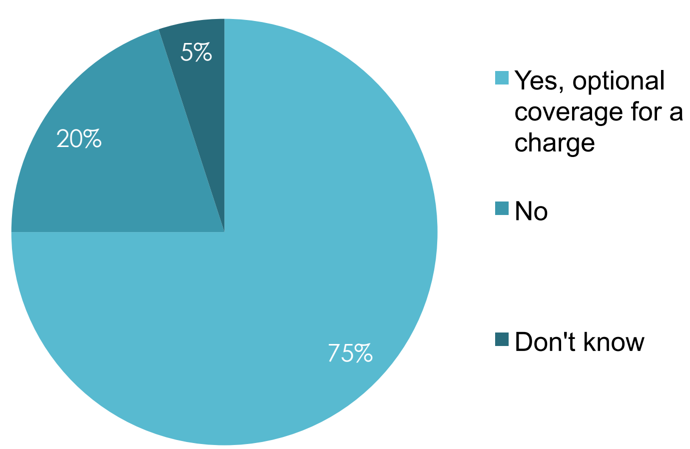
Of the administrators polled, only 7 percent said they use third party cyber risk analytics. One percent said they use it if it is provided by the broker. The majority of those surveyed do not use third party risk analytics, while 7 percent have no view.

DO YOU USE THIRD PARTY CYBER RISK ANALYTICS?



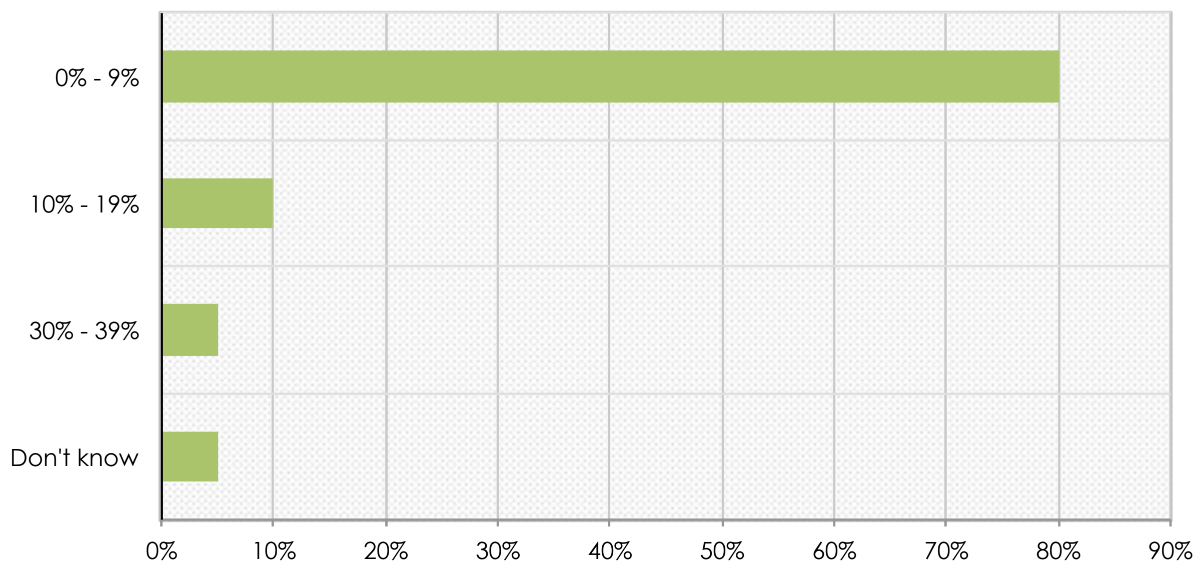
Carriers surveyed were asked if they offer their program administrators cyber cover to add to their program packages. Three-fourths of those polled reported offering it as an optional coverage for a charge. Twenty percent said they do not offer it, while 5 percent have no view.

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



Asked about the percentage of their total program book that includes cyber cover, 80 percent of the carriers surveyed said 0 to 9 percent, 10 percent said 10 to 19 percent, 5 percent said 30 to 39 percent, while the remaining 5 percent have no view.

WHAT PERCENTAGE OF YOUR TOTAL PROGRAM BOOK INCLUDES CYBER COVER?

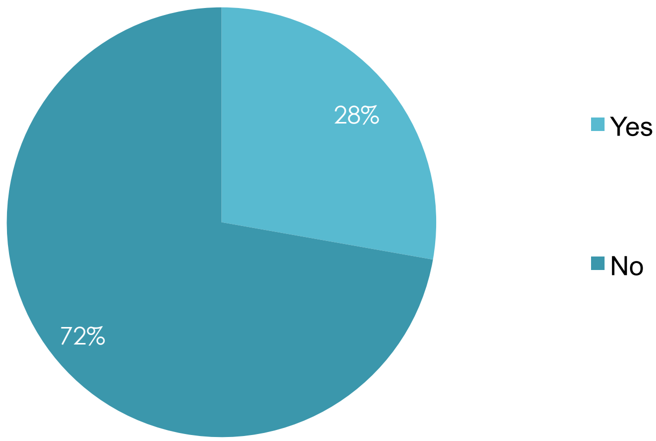


TECHNOLOGY / AUTOMATION

In this survey, carriers were asked about the key elements of program administration that need improvement. A number of those who responded identified technology as an area that needs attention. One carrier said the pace of using technology must quicken. Another carrier commented that IT capabilities to capture data must be improved. This will be “addressed with more commitment to IT spending to demonstrate profitability,” the respondent said.

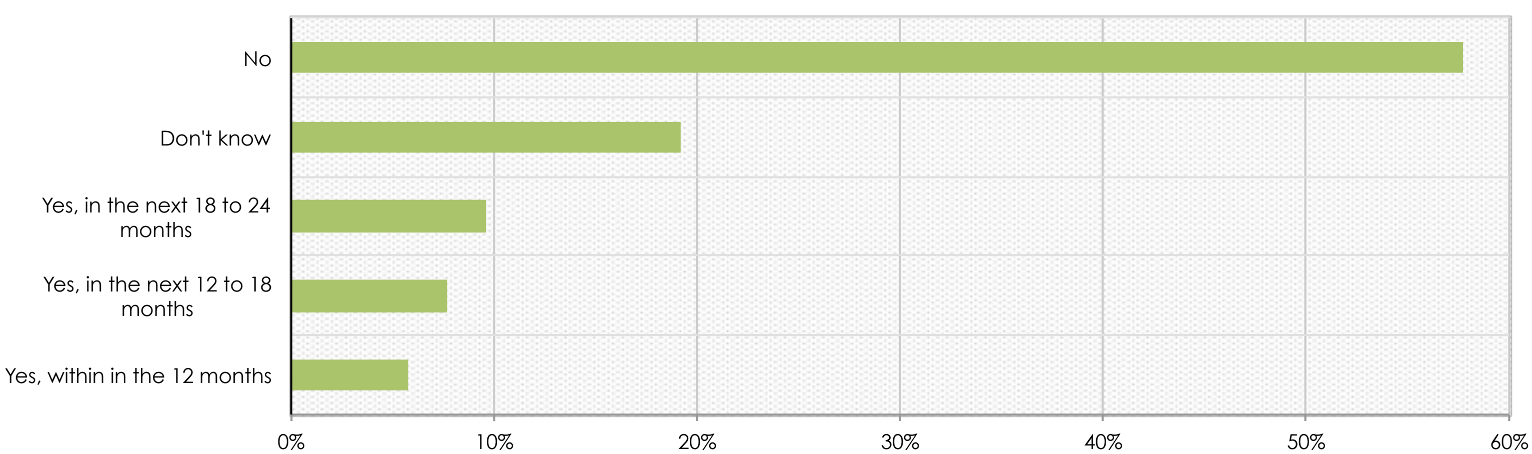
Of the administrators polled, only a third reported providing automated quotes directly to insureds online.

DO YOU PROVIDE AUTOMATED QUOTES DIRECTLY TO INSUREDS ONLINE?



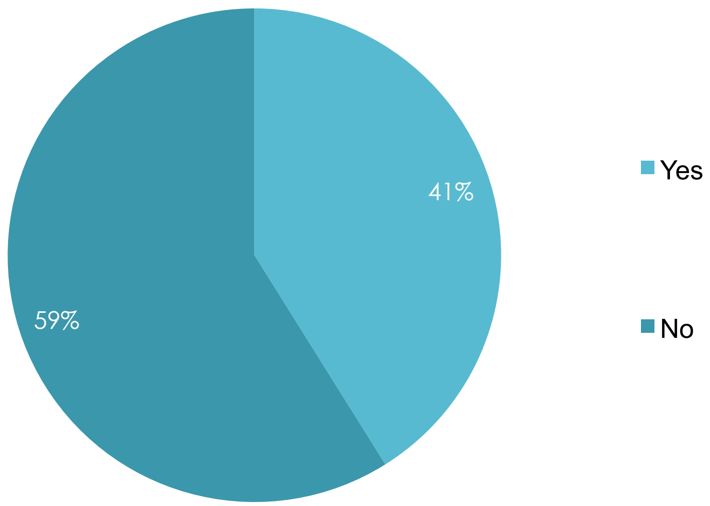
Those who do not provide automated quotes to insured where asked if they plan to do so in the future. Almost 60 percent of these carriers said no, while 24 percent said yes. The remaining 19 percent have no view.

PLANS TO PROVIDE AUTOMATED QUOTES TO INSUREDS



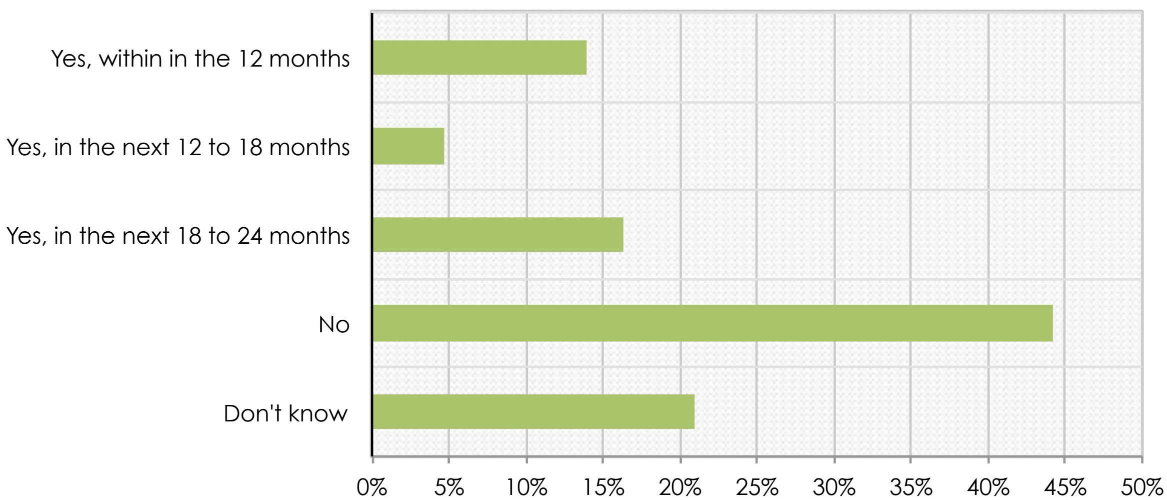
Asked if they provide automated quotes directly to agents or brokers online, 41 percent of the administrators polled said yes, while 59 percent said no.

DO YOU PROVIDE AUTOMATED QUOTES DIRECTLY TO AGENTS/ BROKERS (RETAIL AND/OR WHOLESALE) ONLINE?



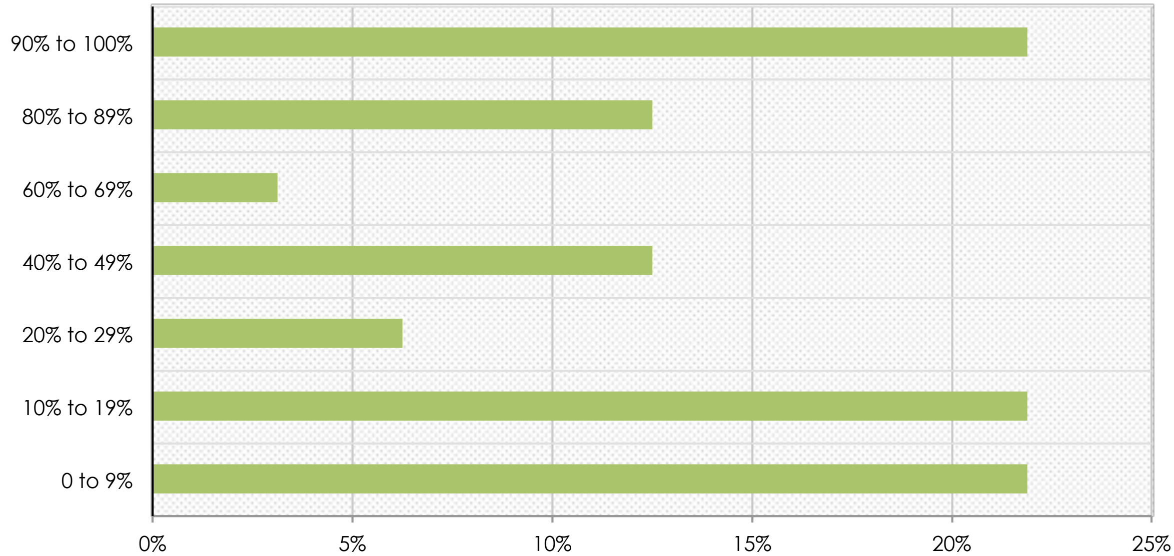
Of those who do not provide automated quotes to agents or brokers, 35 percent said they plan to do so in the future, while 44 percent said they have no plans. The remaining 21 percent have no view.

PLANS TO PROVIDE AUTOMATED QUOTES TO AGENTS/BROKERS



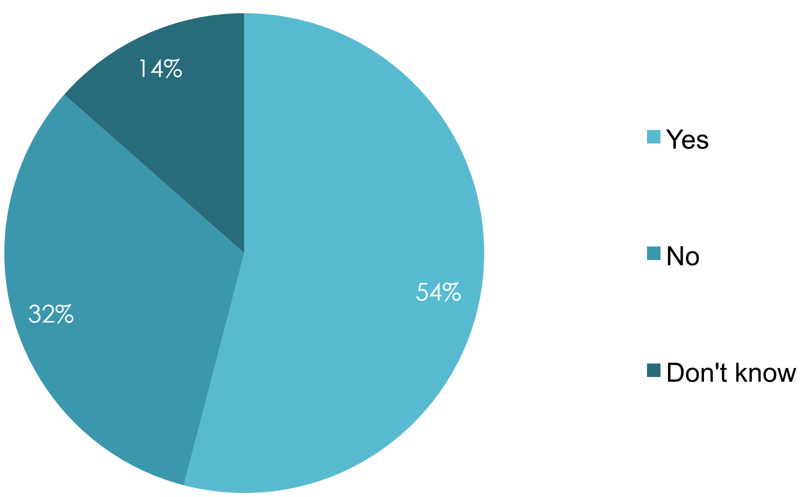
For administrators who provide online quotes, 11 percent said these quotes represent 90 to 100 percent of their total premium volume. Another 11 percent said 10 to 19 percent, while 11 percent said 0 to 9 percent. Three percent said 20 to 29 percent, while 2 percent said 60 to 69 percent. Forty-four percent of administrators who responded to the question said this is not applicable to them, while 3 percent have no view.

IF YOU DO PROVIDE ONLINE QUOTES, WHAT PERCENTAGE OF YOUR TOTAL PREMIUM VOLUME DOES IT REPRESENT?



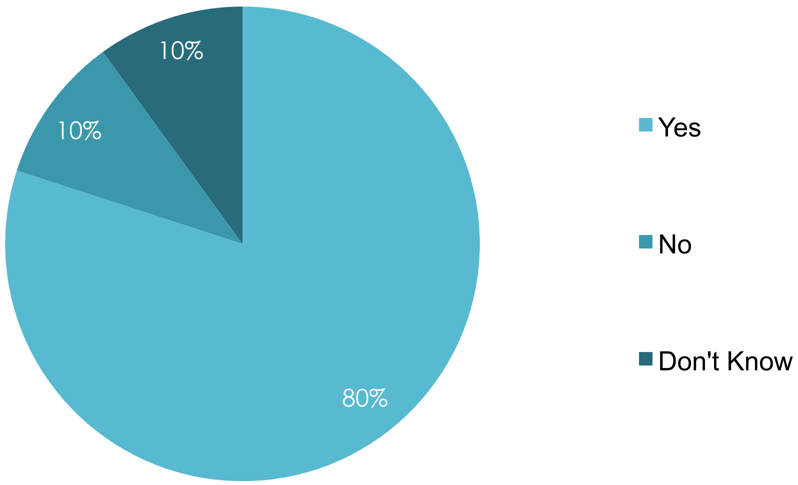
Asked about their opinion whether or not technology has promoted selling directly to the end buyer, 54 percent of the administrators said yes, while 32 percent said no. The remaining 14 percent have no view.

TECHNOLOGY PROMOTED SELLING DIRECTLY TO THE END BUYER



As with the previous poll, 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.

ADMINISTRATORS' APPLICATION OF MORE SOPHISTICATED TECHNIQUES FOR RISK SELECTION, PRICING AND DATA COLLECTION



MERGERS AND ACQUISITIONS

Between 2016 and 2017, the industry continued to witness M&A activity. Some of these transactions are listed below:

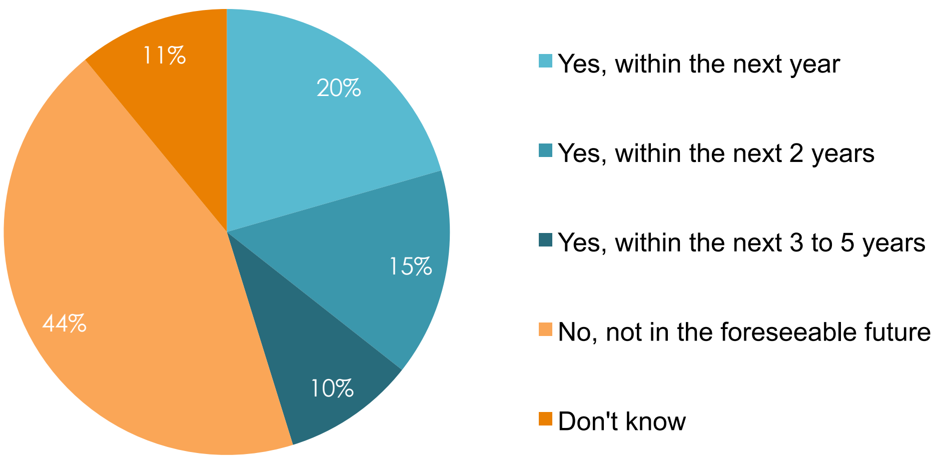
Buyer	Seller	Date
Breckenridge Insurance Group	Platinum Program Managers and Insurance Services	March 2016
Arrowhead General	OnPoint Underwriters	July 2016
AmTrust	Assure Space, LLC	July 2016
Brown & Brown	Insurance House	January 2017
Alliant	SES Insurance Brokers Services	April 2017
McGowan Companies	NAPLIA	July 2017

This continued consolidation was identified by a number of respondents as one of the challenges facing the program business. “Acquisitions continue to make for larger and larger mega PAs, making true specialists more rare,” a carrier respondent commented when asked for final thoughts regarding the program business. Another carrier shared this view, saying “consolidation of the independent program administrators [lead to] less programs with a track record.”

For Chris Pesce, what is interesting is that “The consolidation does not seem to cut down the number of program administrators. 1,000 has been pretty consistent.”

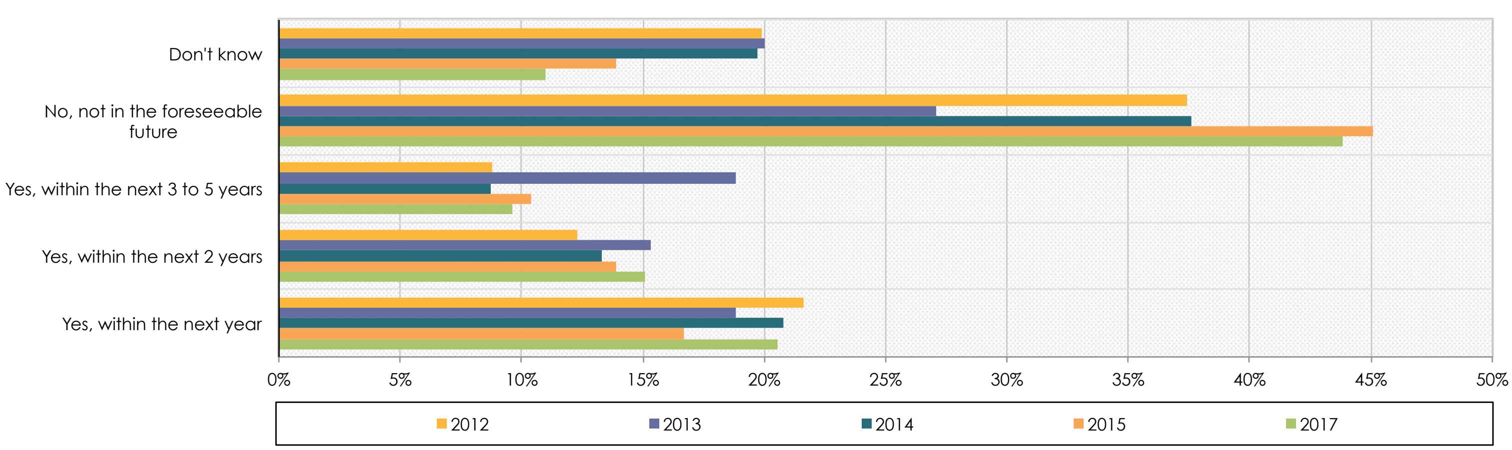
Administrators were queried if they are planning to acquire other program administrators. Forty-four percent of the administrators surveyed have no plans to acquire other program administrators in the foreseeable future. Twenty-one percent of those polled said there is a plan to acquire within the next year, 15 percent within the next two years, and 10 percent within the next three years. Eleven percent of those polled have no view.

PLAN TO ACQUIRE OTHER PROGRAM ADMINISTRATORS



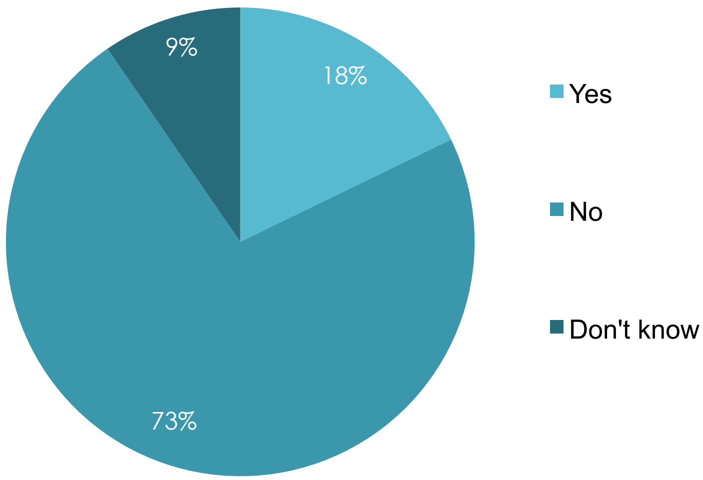
After increasing from 43 percent in 2013 to 48 percent in 2014, the number of administrators looking to acquire other firms anytime soon in the foreseeable future remained flat at 46 percent in 2016. As would be expected, the larger firms exhibited a greater tendency to acquire other program administrators.

PLAN TO ACQUIRE OTHER PROGRAM ADMINISTRATORS COMPARISON 2012 - 2017



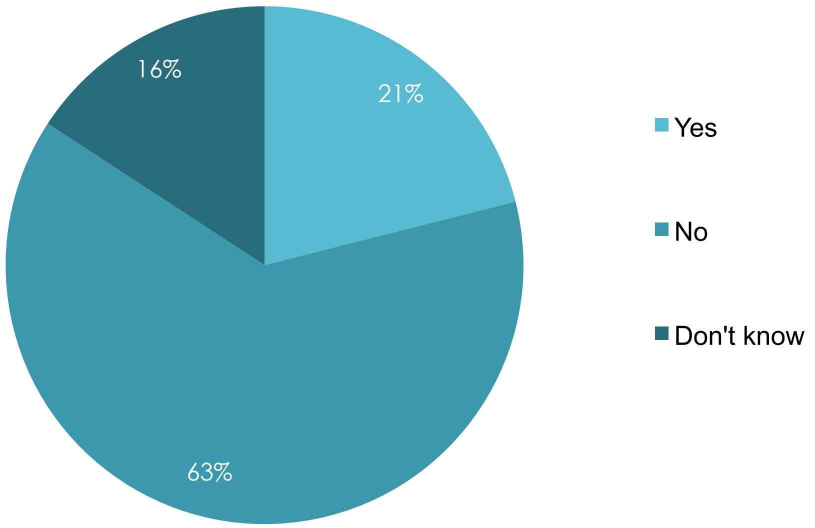
Asked if current valuations are preventing them from successfully acquiring, 73 percent of the administrators polled said no, while 18 percent said yes. The remaining 10 percent have no view.

ARE CURRENT VALUATIONS PREVENTING YOU FROM SUCCESSFULLY ACQUIRING?



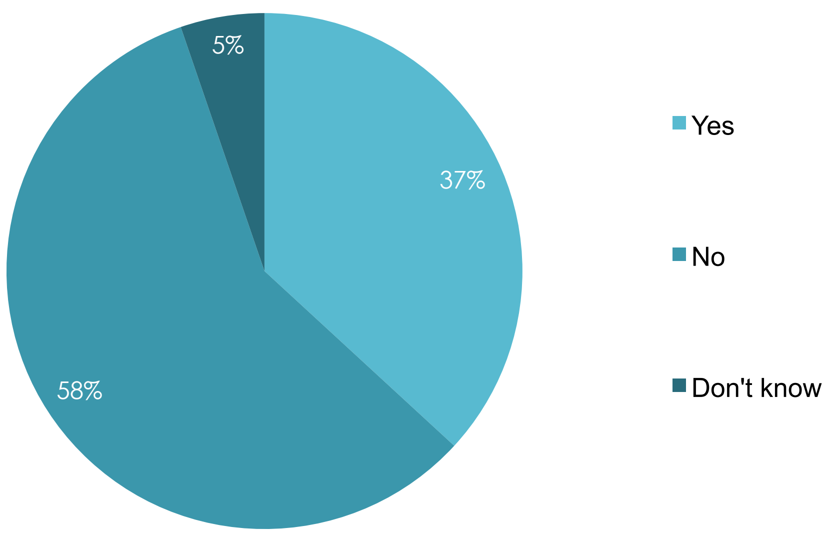
Carriers were asked if they plan to grow their program business by acquiring program administrators. Twenty-one percent of those polled said yes, while 63 percent said no.

DO YOU PLAN TO GROW YOUR OWN PROGRAM BUSINESS BY ACQUIRING PAs?



Of the carriers surveyed, 37 percent said they will only consider roll over books of program business, while more than half said they will not.

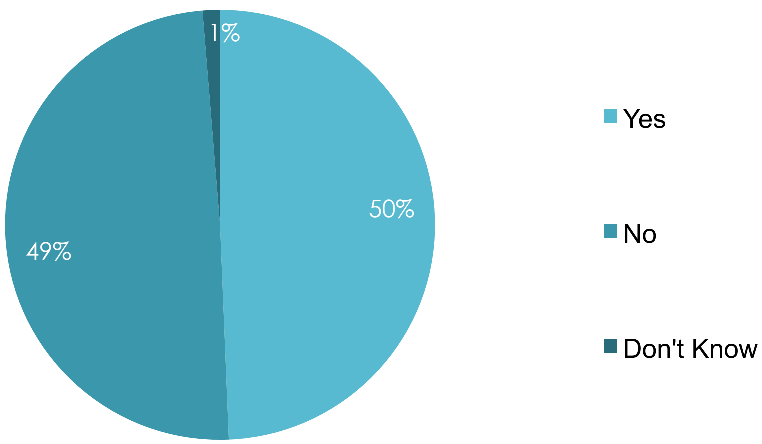
WILL YOUR COMPANY ONLY CONSIDER ROLL OVER BOOKS OF PROGRAM BUSINESS?



RISK SHARING

Fifty percent of administrators risk share in their programs, while another 49 percent do not risk share in both underwriting gain and loss. The remaining 1 percent had no view on risk sharing.

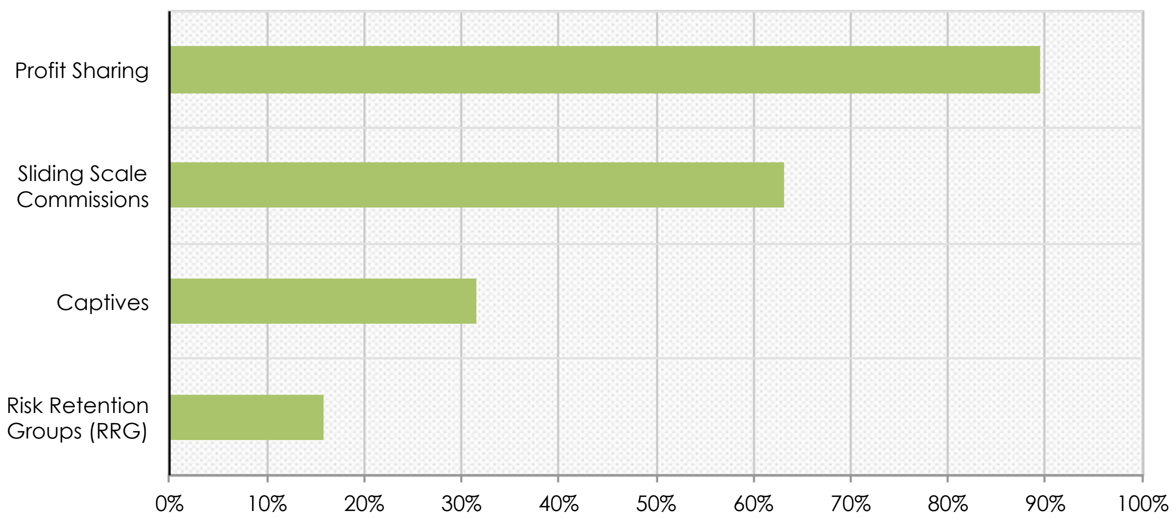
DO YOU "RISK SHARE" IN YOUR PROGRAMS?



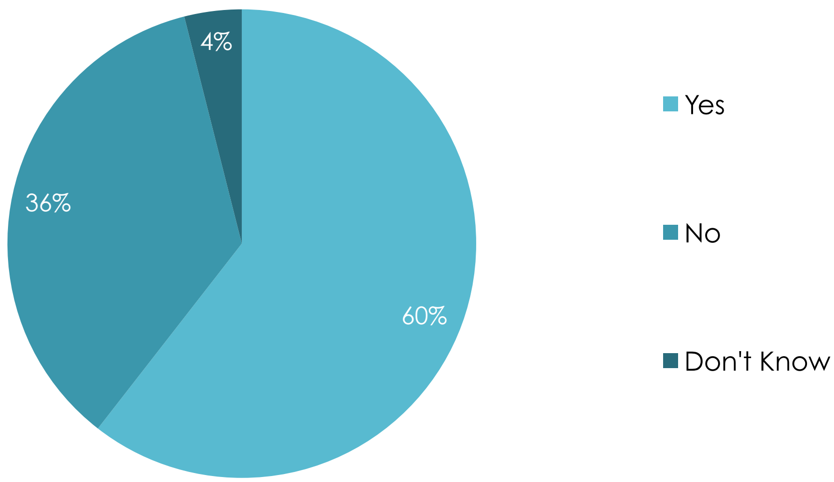
The top risk sharing methods used by administrators are profit sharing, sliding scale commissions, and captives.

Asked if they have any programs that do not include a profit sharing component, 60 percent of the administrators polled said yes, while 36 percent said no.

TOP RISK SHARING METHODS USED BY PAs

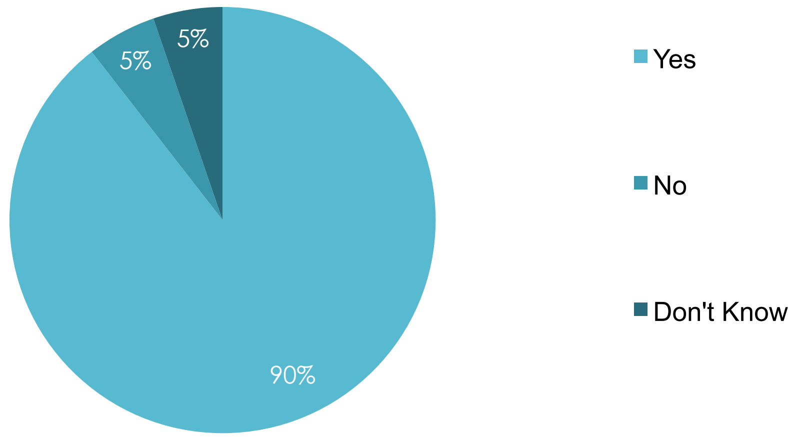


DO YOU HAVE ANY PROGRAMS THAT DO NOT INCLUDE A PROFIT SHARING COMPONENT?



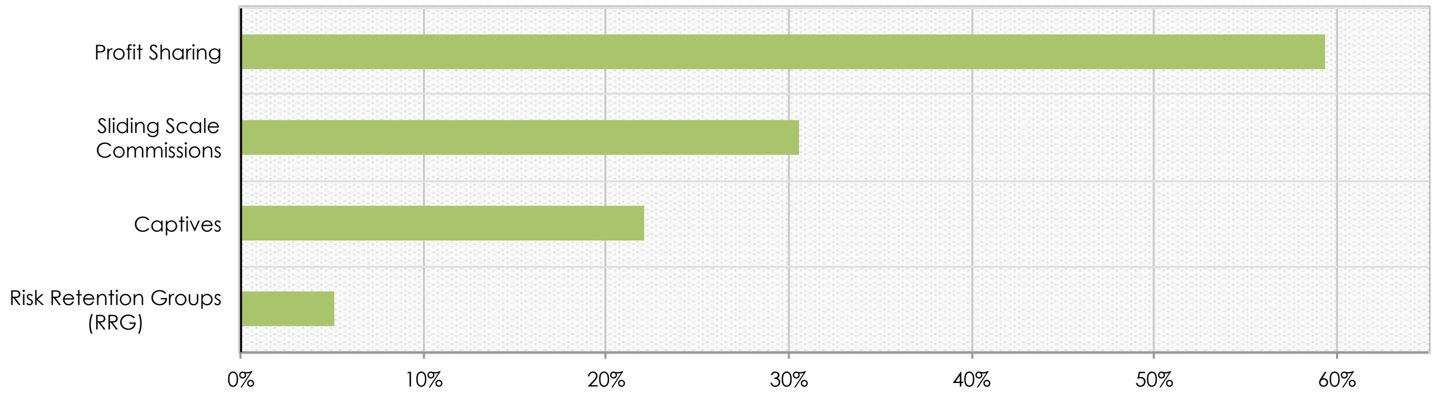
Ninety percent of carriers polled offer risk sharing agreements where the program administrator shares a direct percentage of profit and loss of the program. Five percent do not offer risk sharing agreements, while the remaining 5 percent have no view on the question.

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



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

TOP RISK SHARING METHODS USED BY CARRIERS

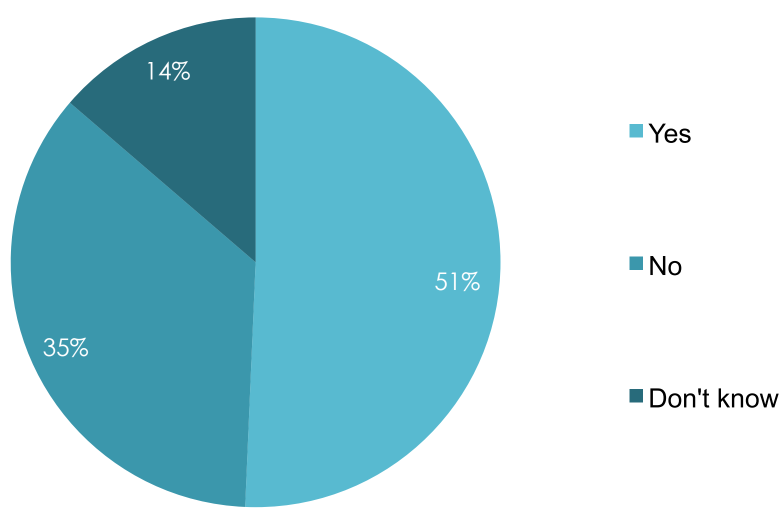


HIRING PRACTICES

Attracting and retaining talent continues to be one of the major challenges faced by the program business. One carrier lamented that "new young talent is not entering this sector." Several respondents also mentioned that the aging workforce is a challenge.

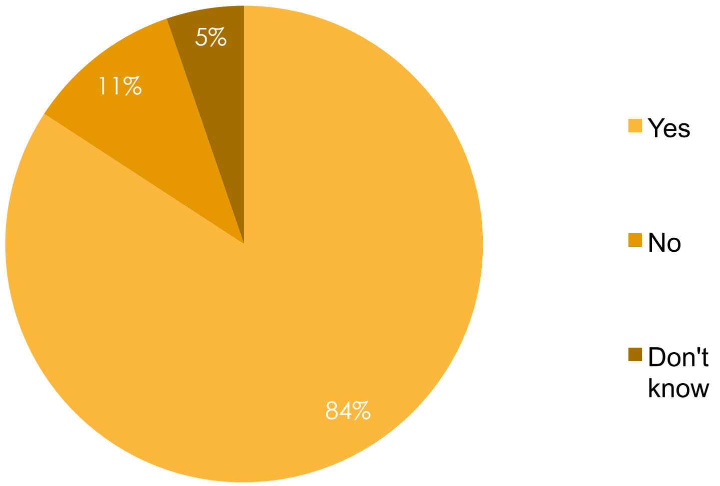
Asked if their organizations adopted hiring practices intended to diversify their employee population, half of the administrators polled said yes, 36 percent said no, and 14 percent have no view.

PAs' ADOPTION OF HIRING PRACTICES INTENDED TO DIVERSIFY EMPLOYEE POPULATION



In the case of carriers, 84 percent reported adopting hiring practices intended to diversify their employee population. Only 11 percent said no, while 5 percent have no view.

CARRIERS' ADOPTION OF HIRING PRACTICES INTENDED TO DIVERSIFY EMPLOYEE POPULATION



EMERGING RISKS SUITABLE FOR PROGRAM BUSINESS

The TMPAA and Advisen Ltd. asked this year's respondents about the emerging risks they believe are suitable for the program business.

Among the emerging risks identified by administrators were drones, autonomous vehicles, legalized cannabis exposures, flood, and warranties. "With all of the rapid changes taking place in society such as drones and autonomous vehicles, plus the explosion of the sharing economy, there are numerous opportunities for nimble creative carriers and MGAs," one administrator polled said.

Another respondent said, "Drones – servicing firms can do more in less time using this technology. It is largely misunderstood and coverage provided by 'standard markets' is still evolving a lot."

"WITH ALL OF THE RAPID CHANGES TAKING PLACE IN SOCIETY SUCH AS DRONES AND AUTONOMOUS VEHICLES, PLUS THE EXPLOSION OF THE SHARING ECONOMY, THERE ARE NUMEROUS OPPORTUNITIES FOR NIMBLE CREATIVE CARRIERS AND MGAs," ONE ADMINISTRATOR POLLED SAID.

The carriers listed cyber, autonomous vehicles, ride sharing, and cannabis as emerging risks suitable for program business. According to one carrier, "With the rise of IT in all facets of life, all industries will provide opportunities for program administrators to specialize coverage for unique and new IT-based products (cars, drones, machines). They represent small to medium-sized risks that share common traits where coverage can be devised to handle malfunction or loss due to direct physical damage (storms, etc.) and lawsuits that arise from their operation."

For another carrier respondent, "All of the emerging risks will become suitable for program business once an acceptable level of expertise has been achieved."

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.

Topping the list of challenges identified by both administrators and carriers is keeping up with modern technology and dealing with the expense that goes with it. According to one administrator, “Too many carriers are still using old clunky legacy systems.” Another administrator said that “legacy agent systems and Acord tie-ins are becoming obsolete, but remain an expensive anchor to the past.” Commenting on the issue, a carrier lamented that “time and capital spent on IT is extremely high.”

To address the technology problem, some administrators mentioned the need to beef up their technological capacity by investing in technology platforms that will help drive growth. Among suggestions to implement this is by investing in in-house IT programmers who can improve internal systems. For another administrator, there is a need “to use technology to provide additional underwriting tools and present insureds with additional resources to improve operation.” Another administrator underscored the importance of “using technology efficiently, productively, and profitably.”

Commenting on technology, an administrator said that “they will explore opportunities to provide products through digitized platforms that can be done more directly to the buyer. Digitization and automation will provide opportunities to reduce expenses, making it possible to be more competitive.”

For many administrators and carriers, the current soft market conditions continue to pose challenges to their bottom line results. One carrier respondent said “Soft market conditions are driving up results and limiting capacity.”

Some also mentioned the continued downward pricing and overcapacity as related challenges. “Pricing is below profitable levels,” an administrator respondent commented.

Administrators and carriers also see the lack of talent as a key issue affecting the program business. Many of those who commented said there is a lack of youthful underwriting talent. Among carriers, they see the aging workforce as a problem. Some of the respondents mentioned that they have sought the help of recruitment agencies to find suitable talents. Other respondents are implementing training programs to ensure a high quality talent base.

Data collection remains a challenge among administrators and carriers. One administrator cited their “inability to get data from traditional markets.” Some administrators mentioned having problems with data sharing from carrier partners. For one carrier, “MGA systems capabilities do not support robust analytics.”

In addressing the data problem, administrators are looking at “building out and capturing more data and extensive use of analytics and modeling.”

Increasing competition is another problem area mentioned by some of those polled. There is “too much stupid capital supporting supposed UW groups that will yield poor results but damage the market,” one administrator lamented. Others mentioned that there too many new entrants fighting for market share in a soft market. “Lloyds brokers are competing directly with programs that utilize London reinsurance. It is a confidential information conflict for them, and it needs to end,” one administrator said.

How do they address this challenge? According to one administrator, they “Maintain underwriting discipline in the face of irresponsible competition.” In response to new entrants, another respondent said it is important to “Maintain underwriting discipline to ensure the longevity of programs through profitable results. Avoid following market pricing pressures in soft market cycles.”

Some emphasize value-added services and underwriting expertise. “We are constantly updating our value propositions.”

Other issues identified by respondents were consolidation, restrictive regulatory requirements, lack of underwriting knowledge, carriers' lack of willingness to risks with regard to new program development, and unsuccessful programs that hurt the chances of programs in the same area.

FUTURE PROSPECTS OF THE PROGRAM ADMINISTRATION BUSINESS

Consistent with the findings of previous surveys, administrators and carriers see a bright future for the program business.

Administrators and insurers remain in sync about what the future holds – they see solid growth amid the many challenges confronting the industry. Both groups, however, are in agreement that there are certain improvements that must be made to sustain this growth.

Commenting on the future prospects of the program business, one respondent said, "We continue to believe there are strong opportunities within the program space with increased specialization and utilization of more advanced IT solutions to get products and decision making closer to the customer."

Sharing the positive view over the future of the business, a carrier respondent said, "As long as they continue to win on customer service and answer underwriting and claims questions in a timely manner, program business will continue to expand."

Comments show that program administrators understand the need to be better at what they do to ensure the industry's continued success.

"IF PROGRAM BUSINESSES DO THEIR JOB AND PROVIDE SERVICE AND PROFITS TO CARRIERS, MORE CARRIERS WILL WANT TO GET INTO THE SPACE. LESS PROGRAMS WILL BE ABLE TO BURN CARRIERS AND FIND NEW ONES BECAUSE YOU CANNOT HIDE FROM DATA. IT ALWAYS AMAZES ME WHEN YOU SEE A POOR PROGRAM FIND A NEW HOME BUT THIS IS HAPPENING LESS AND LESS. I WELCOME COMPETITION, JUST GOOD COMPETITION. I THINK THE FUTURE IS BRIGHT FOR THE PROGRAM BUSINESS," AN ADMINISTRATOR SAID.

"If program businesses do their job and provide service and profits to carriers, more carriers will want to get into the space. Less programs will be able to burn carriers and find new ones because you cannot hide from data. It always amazes me when you see a poor program find a new home but this is happening less and less. I welcome competition, just good competition. I think the future is bright for the program business," an administrator said.

"Prospective program administrators need to make the necessary investment in systems and people to carry out their endeavors," another respondent said.

One respondent highlighted the need for reinvention. "An aging industry that needs to be reinvented and stays relevant in today's ever changing world of risks and threats and understanding how to take advantage of these evolving opportunities."

Some respondents hold a different view. "It's a difficult business to be in. With technology advancing so rapidly and carriers wanting a larger slice of the pie, I'm not sure what the future holds," one administrator said. Another respondent believes "that the continual recycling of unprofitable programs will cause many carriers to move away from program business."

Still, a greater number of views lean more toward the positive side.

SURVEY SUMMARY AND CONCLUSIONS

The program space remains a good space to be in despite the slowdown in growth recorded in 2016, this is the main finding of ***The TMPAA State of Program Business Study 2017.***

Despite facing challenges in the areas of technology, the soft market, data collection, recruitment, consolidation, and increasing competition players in the program administration industry continued to report strong growth.

Both administrators and carriers remain bullish on the industry's future. They are in agreement that the program space will continue to be a strong market especially if they address areas that need improvement.

The survey also found that there is plenty of room to grow for advanced technologies in the program business. Administrators and carriers are in sync in recognizing the need for technological advancement in an industry that has lagged behind others when it comes to modernizing its systems. Responses to the survey show that while industry players see insurtech as an opportunity, they have yet to fully employ the technology in their operations. Appreciation for predictive modeling also remains limited as administrators and carriers continue to weight near-term and long-term impacts.

A look at cyber coverage shows that take-up rates remain relatively low. Offering adequate coverage to mitigate potential cyber losses is a growing challenge among administrators.

Apart from cyber, the industry is also studying other emerging areas including drones, autonomous vehicles, and cannabis.

One administrator describes the future of the program as "GREAT", underscoring that "We are more agile than the rest of the market and will evolve better solutions more quickly to take advantage of changes."

The 2017 poll is the sixth in a series of annual surveys of program administrators and carriers to track trends in the program business. TMPAA, Advisen Ltd., Allianz, Allied World, Ironshore, and NetRate Systems anticipate that continued strong support for the survey will result in a valuable, annually updated tool that will provide TMPAA members information they need to make better-informed business decisions.

ORGANIZERS

ABOUT TMPAA

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

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Allied World Assurance Company Holdings, AG, through its subsidiaries and brand known as Allied World, is a global provider of innovative property, casualty and specialty insurance and reinsurance solutions. Allied World offers superior client service through a global network of offices and branches. All of Allied World's rated insurance and reinsurance subsidiaries are rated "A" by A.M. Best Company, "A" by Standard & Poor's, and "A2" by Moody's, and our Lloyd's Syndicate 2232 is rated "A+" by Standard & Poor's and "AA-" (Very Strong) by Fitch.

PROGRAM BUSINESS STRATEGY

We work with leading program administrators to bring clients the most innovative and comprehensive insurance protection. By discovering industries and product specialties that have been underserved by traditional insurance markets, we are able to build coverage solutions and services that support niche needs. Industries served include but are not limited to: Construction, Healthcare, Public Entities/Public Service, Sports, Leisure and Entertainment.

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COMPANY DESCRIPTION

Allianz is the world's largest P&C underwriter and is based in Munich Germany. North America operations are located in New York, Chicago, Atlanta, Los Angeles, San Francisco and Toronto. North America sales top $3 billion and 20% of this premium is in Program Business. Allianz Global Corporate & Specialty offers core and specialty products for the small business market, middle market and global corporate risk market. Distributors include global brokers, wholesalers, retailers and program administrators.

PROGRAM BUSINESS STRATEGY

Allianz writes 130 P&C programs in the US and Canada. Program sales top $550 million. Allianz has launched an initiative to double program sales in North America by 2022. Appetite is broad and the product shelf for P&C customers is extensive. Allianz is willing to outsource services (rating, underwriting, issuance) to qualified program administrators.

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COMPANY DESCRIPTION

Ironshore provides broker-sourced specialty commercial property and casualty coverages for varying risks located throughout the world. With more than 30 offices around the globe – including Ironshore's Lloyd's Pembroke Syndicate 4000 in London – Ironshore is prepared to meet clients' complex needs promptly, with local service on a global basis and in-depth underwriting experience across a broad spectrum of industries. Ironshore's acquisition by Liberty Mutual and merger with Liberty International Underwriters (LIU) U.S. in 2017 enables us to bring even greater scale, expertise, innovation and product offerings to market. As a combined operation with approximately $2.9 billion in GWP, brokers now have access to a top-tier insurer with greater capacity and product lines for a wide range of risks.

PROGRAM BUSINESS STRATEGY

Ironshore understands the needs of Program Administrators. We have the flexibility to react to the needs and requirements of the program marketplace while applying an efficient and opportunistic underwriting approach. Ironshore Programs serves select segments of General Liability, Professional Liability, Medical Professional Liability, Excess/Umbrella and Marine. Target program attributes:

- Program Administrators who have proven track records, marketing expertise and established distribution systems
- Classes of business that are underserviced by the general insurance market place
- Programs should have measurable size (minimum of $3M) and solid growth potential

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COMPANY DESCRIPTION

NetRate Systems is a software solutions provider that offers cloud-based commercial lines submission, rating, policy issuance, and data reporting solutions to the commercial property and casualty insurance marketplace. Our solutions are accessible anywhere, any time via web based portals. Our NetRATE Commercial Lines Rating and NetPPS Policy Issuance solutions allow our customers to rapidly deploy a complete submit, rate, quote, and issue system. Our insurance savvy, US-based development and support team maintains all the major ISO Commercial Lines and NCCI Workers Compensation rules and rates so that with a small configuration effort your custom program can be on the market in a snap. Included with our cost-effective solutions are maintenance of rates, rules and forms.

PROGRAM BUSINESS STRATEGY

The commercial property and casualty insurance marketplace find that our cloud-based, turn-key solutions provide rapid deployment of existing and new programs without the need of additional IT staff or equipment. The NetRate Systems team configures, deploys, and maintains the rating and policy issuance solutions, while your teams are driving them. The enterprise level solutions are capable of handling multiple carriers and/or programs in one easy to use platform. Our data reporting and analytics solutions reduces the work of reporting to managers, carriers, ISO, and state DMVs. The NetRate solutions are built with integration in mind. Whether you already use one of our integration partners solutions or wish to integrate with another, we are ready to make that connection.

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