HOW TO MAKE THE MGA MODEL WORK

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There are approximately 80 insurance companies in the P&C, WC and Professional Liability space granting underwriting authority to Managing General Agents (MGA). In this article "MGA" may also include "Program Manager", "Program Administrator" and "MGU", as all of these carry certain levels of authority for underwriting and other duties, such as claims. For decades insurance carriers have utilized the MGA model to acquire additional expertise in underwriting, marketing, product and rate development. This can be a mutually beneficial relationship when done correctly and when expectations on both sides are managed.

Many programs using the MGA model succeed while others falter, stumble and even fail for a variety of reasons. What causes one program to succeed and another to fail is often determined on a case by case basis but there are certain factors common to all.

First and foremost, when a carrier is actively engaged in the MGA space, it's important to know what they are looking for in their MGA partners. Put plainly: *expertise in a specific niche*. The word "niche" is commonly used in the industry (much like the word "program"), but at the end of the day, a true niche is always something setting the MGA and their program apart from the rest of the pack. There are dozens of MGA's with contractors programs. Therefore, there needs to be something extra to qualify a contractor program to be a niche: is there a specific artisan segment being targeted? Is there a unique distribution hook? Is there a territorial advantage? The program should be homogenous in nature and the MGA needs to show restraint in building an underwriting box around the targeted class of insureds to assure the carrier the bound accounts fall squarely within their niche. Carriers are also looking for expertise in various forms; this includes not just underwriting but product development, rates, and knowledge of claims and legal trends in various territories and within segments of the class. In a lawyers' legal liability program, an MGA can differentiate itself by showing considerable knowledge in how various areas of practice and various states are more likely to create lawyers professional liability claims. In an insurance agent's E&O program, an MGA may specialize in a specific agency size (per annual revenue), showing how historical results correlate to the different size segments. Being able to show the program can grow without undermining underwriting integrity is the best weapon an MGA can have in its arsenal. Carriers see the MGA as the gatekeeper whose job is two-fold: being able to bind business to build a profitable and growing program, and also declining the continuous flow of business that just doesn't fit.

On the other hand, it's important to keep in mind what MGA's are looking for in an insurance company partner. Strong ratings from AM Best and S&P, as well as a sizable policyholder's surplus, are important in determining what carriers appeal to an MGA. Yet for a program to be successful there is so much more a carrier needs to offer. The carrier needs to be able to lend its own expertise to a program without usurping the MGA's authority; the carrier cannot second guess what has caused the MGA to be successful in the first place. From the onset, the underwriting guidelines and all of the intricacies of the coverage and rates need to be agreed upon with enough flexibility to adjust as the market changes and trends become apparent. The carriers also need to be able to provide a seamless and user-friendly back office for the MGA to interface. Many carriers are now providing systems and this could be a major bonus to the MGA, allowing the carrier to adapt and tweak the information needed while letting the MGA stay on the cutting edge of technology for rating, quoting, binding and policy issuance. The MGA wants assurance the rug will not be pulled out from underneath them. If the carrier is putting enormous top line pressure to grow, then business will certainly come in the door but not necessarily the business that's going to be profitable. Likewise, if there is a constant second guessing or referral guidelines that are far too stringent, the entire program is no longer cost effective and it becomes a hindrance to rolling over the initial business, let alone any type of growth.

The MGA model thrives on a constant give and take between the MGA and the carrier requiring flexibility on both sides. If the MGA underwriters and the carrier underwriters are talking daily then something is seriously wrong; this would indicate changes may be needed in the underwriting guidelines or procedures. There should be openness to making changes from the original starting point, especially in the beginning. From a broader perspective there always needs to be the promise to grow: the carrier needs to believe the $5M program will reach $10M eventually; and the MGA needs to believe they can expand from 10 states to 15 and beyond. For example, in a habitational program, the MGA may find a serious need among its retailers to include some additional property segments which, given recent rate changes, may be in an advantageous time to enter the market. The carrier can conduct their analysis on this approach and, if in agreement, and both partners will be more enthusiastic about the program as a whole than ever. The carrier will be pleased the MGA recognized the opportunity and the MGA is pleased the carrier is open to new ideas of expansion.

The single most important item for the MGA and the carrier is their reputation for longevity and stability. A carrier continually entering and exiting different markets is a temporary solution that while possibly profitable will come at great cost—usually to the MGA. Likewise, an MGA changing carriers every three years usually indicates either a lack of profitability or simply being too difficult to deal with. Both organizations need to be transparent and direct during the discussions and analysis leading to the agreement and then make a concerted effort to be flexible to grow over the long term.