An MGA Handbook

How to Build a Specialty Insurance Program

Program business has been a shining star in the commercial P&C galaxy for the past decade. From 2010 to 2018, programs grew at more than double the rate of the commercial market (11.1% vs. 4.3%).[1,2] And the program market's success has not gone unnoticed. 92% of carriers polled plan to add programs over the next three years.[3] In an increasingly commoditized market, programs offer an opportunity to stand apart.

Creating a successful program, however, is not simple. The best programs are the result of extensive market research and unique underwriting expertise. They take a sharp eye to spot underserved markets and "distressed" business classes that others have missed. And they require smart competitive positioning to carve out a defensible market niche.

Technology, too, plays a vital role. The system you use can make or break your program. You may have done everything right in your selection of markets, pricing, and positioning. But if your system cannot move fast enough or accommodate your product's unique features, all your hard work could be wasted.

Successful programs are no fluke. They take a great deal of patience, planning, and perseverance. In this e-book, we break down the planning process into a few key steps and offer a guide to the system attributes that programs demand. With the right blend of data, insight, and technology, you'll be on your way to a successful program.

1. Advisen. *The TMPAA State of Program Business Study 2019.* Target Markets. October 2019, p. 3.
2. Insurance Information Institute. *https://www.iii.org/graph-archive/96080.* 2018.
3. Advisen. *The TMPAA State of Program Business Study 2019.* Target Markets. October 2019, p. 41.

The Program Market Attraction

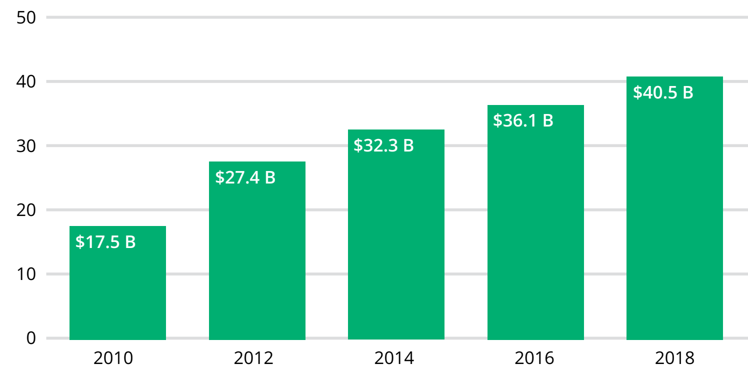
Program business is hot. In 2010, programs made up 8.6 percent of the total commercial P&C insurance market. By 2018, that share had grown to 14.1 percent. And premium growth for programs over that same period (11.1%) was more than double that of the broader commercial market (4.3%).[4,5]

Programs may not replace the entire commercial space, but they are certainly drawing the attention of insurers looking for growth in a highly competitive market. And program business offers bottom-line benefits, too. It delivers higher rates of return and higher margins than traditional Main Street insurance.

At a time when carrier products are becoming increasingly commoditized, programs are an opportunity to offer products that are differentiated and precisely targeted. Successful programs are difficult for competitors to replicate because of the unique expertise required to build them. MGAs with deep underwriting experience in specific business classes can provide carriers with a low-risk, cost-effective way to enter new markets, while the MGAs can gain scale by tapping into carrier resources and brand.

In an increasingly competitive market, where easy access to capital and technology has lowered barriers to entry, program business remains a singular bright spot.

Program Business Growth



Advisen. The TMPAA State of Program Business Studies. October 2012-2019

Program Business Challenges

- **Rapid product development and launch cycles**
- **Ability to absorb bureau updates, while preserving the unique rates, rules and forms of the program**
- **Development of underwriting expertise and distribution in specific markets**
- **A technology advantage that offers greater efficiency and a superior customer experience**

4 Advisen. *The TMPAA State of Program Business Study 2019.* Target Markets. October 2019, p. 3.
5 Insurance Information Institute. *https://www.iii.org/graph-archive/96080. 2018.*

Identifying a Program Opportunity

Spotting areas of distress, in all its forms, is the simplest way to identify a potential program. They offer immediate potential, as they contain a gap between coverage offered and the needs of a particular business class.

A distressed class is one that most underwriters don't understand or for which losses are difficult to predict. To underwrite a distressed business, you need a deep understanding of the nuances of the class and the characteristics of the risk that could produce significant losses. Clever underwriting and careful selection of risks is your competitive advantage and the key to remaining profitable in this niche. A nuclear power plant program is an example. Losses can be catastrophic, and underwriting this class requires highly trained individuals who can separate good risks from bad.

A perceived distressed class refers to business that potential competitors shy away from because their underwriters perceive it as too risky. By careful analysis, a clever underwriter can discover that what others thought were drivers of claims were indeed not so. Ski resorts provide an example. Underwriters may avoid this class because of downhill ski exposure, while the real claims drivers are slips and falls in ski lodge restaurants.

An underserved class refers to a business that others have traditionally avoided or for which there is no meaningful competition. It may be that the specific geographic territory of a potential program is overly litigious, or that the market for this specific class is small. An example of this could be trash truck operators in New York City. Perhaps a longtime provider, a traditional insurance company, has locked the market up, raised rates over the years, and let its customer service slip. They have left the door open for a program writer that can offer a better product.

Choosing a Program to Pursue

Underwriters with experience in specific risk classes are the best source for new program ideas. These could cover any business imaginable, from ski resorts to tow truck companies to bowling alleys. The more unique your underwriters' expertise the better.

Competition may provide another clue to program viability. A space with a big carrier and general insurance offerings is a good play, as the incumbent generally will not be agile enough to respond. On the other hand, in a market with several MGAs, one or more program options may already be available. This should be a red flag unless you have a clear advantage you can exploit.

Once you identify a possible class to target, you need to gain a clear understanding of its business potential. This is where market research comes in. At this stage, you will dig deeper into the numbers and build a business case. Good data is the backbone of a good program, and no expense should be spared to find the most reliable information possible. The more data collected in the early stages, the more likely your chance of success.

Companies like Dun and Bradstreet are good sources for market data. Drill down at least four digits on SIC codes to find a target class that is as specific as possible. The sidebar on the right offers a suggested list of attributes to gather on the companies in your target space. Your underwriters can suggest others.

Data Collection Basics

At a minimum, you will want to collect these data points on the companies in your target market:

- **Number of Employees**
- **Revenue**
- **Company Size**
- **Geographic Location**
- **Loss History**

Analyzing the Market Data

Having collected and organized the best available market data, you should have a fairly accurate market size for your potential program. Now you can pursue some qualitative and quantitative analysis to further evaluate the opportunity. Here are three steps to consider:

1. Map the Data – Quadrant analysis is an effective way to visually analyze a diverse set of data. Map companies from your target list on a two-by-two grid to reveal patterns that will help narrow your focus. In our example, you may start with a grid that measures company revenue on one axis and claims on the other. You may also place the companies on a US map to visualize where your target market is most concentrated.

2. Form a Focus Group – From your list of target companies, build a focus group to validate the program opportunity. Call on twenty or so companies and ask them to discuss their needs and relevant details about their current insurance coverage. Supplement your focus groups with surveys sent to your full list. Keep survey questions to a minimum to maximize your response rate, focusing on the most critical information such as policy size.

3. Narrow Your Target – Whittle your data down to a specific target niche. For example, say there are 10,000 potential customers in the tow truck market. Your research shows the average commercial auto policy is $10,000. If your goal is $1M in commercial auto in the first year, you will need to write 100 policies. That's 1% of your target universe. Is that feasible? If your sold-to-submitted ratio is 1:3, you will need to engage with 300 businesses. Do you have a marketing program that will generate that kind of volume?

Of course, the programs you choose to develop will depend on your risk tolerance. But your research and analysis will greatly increase the chances of program success and help avoid risky plays.

Sizing Up the Competition

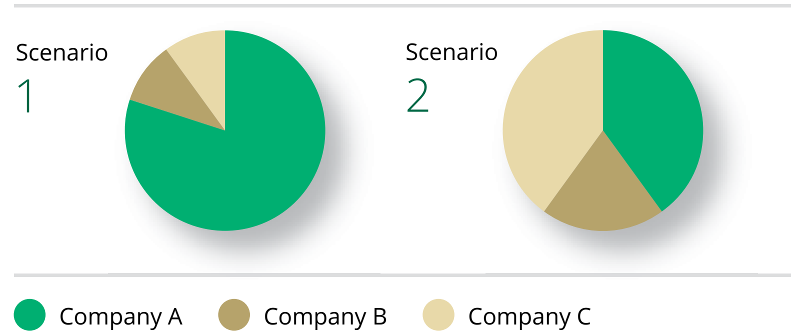
After a thorough assessment of the market, competitive analysis is the next vital step in validating your program opportunity. You will need to gather available public data on the competitors that play in the space and build profiles that will help you position against them. Potential characteristics to collect are provided in the adjacent sidebar.

If the competition is selling **admitted products**, much of the information you need will have been filed with the state insurance bureaus. Pulling those filings will show you exactly what your competitors are offering.

Competition that is **non-admitted** will require a bit more digging. Work with an industry focus group or broaden your market research to determine the types of insurance offerings available.

Map out each competitor's data in SWOT format (Strengths, Weaknesses, Opportunities, and Threats) and compare it to a SWOT chart on your own company. This should reveal openings in the market that you can exploit. A simple web search will produce many SWOT analysis tools and templates you can use.

Now, take a step back and look at the entire competitive landscape. Will you be competing against one dominant player (Scenario 1, on the right), or is market share more evenly distributed among a variety of players offering effective solutions (Scenario 2)? With programs, it is generally easier to enter a market dominated by one insurer. If that player has become complacent, even better. Chances are higher they will not be able to compete when you enter the market with better technology, cost, or service.



Competitor Research Points

- **AM Best rating**
- **Total premium**
- **Geographic reach – national or regional?**
- **Types of products (from the filings, for admitted products)**
- **Lines of business and product composition**
- **Market share in your targeted business class**
- **Product pricing (from filings, focus groups, or research)**
- **Distribution – online or through agents?**

Choosing the Right System

The system you use can make or break your program. You may have done everything right in your selection of markets, pricing, and positioning. But if your system cannot move fast enough or accommodate your unique product features, all your hard work could be wasted.

A customizable, modular system is the best fit for program business (see table). The following are some of the key qualities to look for:

- Most programs are admitted, so support for **bureau content**, like ISO and NCCI, is essential. Rates, rules, and forms should cover all lines and all 50 states, and updates should be provided regularly to maintain compliance.
- Products tailored to your target market are part of your differentiation. **Customizations**, such as unique endorsements, forms, and rating equations, should be easy to build. And your system should allow you to preserve these when bureau content is updated.
- Program opportunities don't last long. If you spot one, you need to move quickly before a competitor does. **Fast implementation** and a short learning curve are critical. Large, enterprise system projects simply take too long.
- Connections with carriers and agent networks are essential elements of the program model. Your system should easily **integrate with other systems** and components, such as carrier back-end and agency management systems, through market-tested APIs.
- With all your careful analysis, launching a program still carries uncertainties. Your system should come at a **cost that aligns** with the size of your business. Price based on premium volume, rather than a large license fee and implementation cost, can help reduce your risk.
- Carriers will want regular reports on program performance, and you will want insights that help you tune the program to maximize profit and growth. Your system should offer robust **reporting** capabilities and easy access to your data.

Deploy a system that fits the demands of your program business and technology will become another weapon in your competitive arsenal.

System Type	Pros	Cons
Carrier Provided	Inexpensive Immediately available Familiar	Inflexible No Control Limited Data
Homegrown	Inexpensive Control Familiar	Inflexible Outdated Maintenance issues
New Enterprise	Flexible Access to data Integrated?	Very expensive Failure risk Long implementation
Custom Modular	Flexible Speed to market Access to data	Expensive Integration required

Concluding Thoughts

While programs are attractive, they are not an instant answer to a challenging market. They require a mix of creativity, expertise, and strategic thinking to be successful. They take diligent research and analysis to build a business case and a deep dive into the competitive environment. And they require the right technology mix to support them.

Program business is growing— and it's no surprise. Its highly specialized and personalized products offer unique value to the markets they target. Through programs, insurers can realize higher rates of return and renewals than traditional Main Street business. If you're looking for profitable growth, programs could be your answer, provided you're prepared to do the work.

The Instec insurance platform

In an environment where players are rewarded for reacting quickly to new opportunities, owning the right technology is key. With Instec, MGAs and carriers can launch innovative programs, using an extensive library of bureau content and custom rates, rules and forms. Our cloud-based architecture minimizes up-front cost, and because you own the data, you have total flexibility when it's time to choose a partner for your program.

Instec's **insurance platform** helps you adapt to a challenging environment, through these core attributes:

- **Rapid Time to Market.** MGAs have begun quoting with the Instec Policy system in as little as 4 weeks, in all 50 states, for multiple lines. Our FastTrack implementation and cloud-based deployment minimize time and resource demand. And with Instec Policy's self-configuration tools, you can create your own unique product features without the need for expensive outside resources.
- **Compliance-ready.** A comprehensive library of bureau rates, rules, and forms, for multiple lines in all 50 states, provides up to 90% of the finished system out of the box.
- **Optimal Cost of Ownership.** Instec's SaaS pricing and cloud deployment align software and infrastructure cost with revenue, so MGAs can launch programs at a low entry cost, then scale up quickly and affordably as the business grows.
- **Reliability.** Instec's staff of insurance experts codify and implement the most efficient business processes and proven business rules. And with each new bureau update, Instec experts ensure that client customizations are preserved.
- **Accessible Data.** With Instec's accessible data structure, MGAs can painlessly migrate entire books, eliminate duplicate data entry, and integrate seamlessly with carrier systems and agent portals for faster quoting and policy issuance.
- **Business-Driven.** Self-service configuration and an intuitive user interface enable business users to complete 60-80% of rates, rules and forms customization with little or no assistance from IT staff or outside services.

These elements combine to create rapid time to value and a return on investment that's an order of magnitude greater than the typical multiyear, multi-million-dollar enterprise system project.

Instec systems are running at over 200 rating companies, with programs for over 230 market niches, representing over $2 billion in premium. Nobody knows programs like Instec.

New users have begun quoting with Instec's policy system in as little as 4 weeks, in all 50 states, for multiple lines.

About the Author

CJ Lotter is Director of Engagement Management at Instec. Prior to joining the company, he spent nine years as Chief Research and Business Development Officer at the US programs division at Willis Towers Watson. There, he established a process for efficiently launching programs, and in eight years created nine new Managing General Agent (MGA) programs resulting in double-digit premium growth.

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