

Getting your program back on track

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AS A MANAGING general agent, you were dismayed and taken aback by that registered letter in today's mail. In it, your carrier partner of six years gave you the unwelcome news that it is nonrenewing your binding authority, effective 180 days from today. The reason, according to your carrier, is that its parent company views your program as "unable to meet their production objectives"—this despite your lengthy track record of profitability and the fact that competitive market forces and logistical problems that no longer exist previously had restricted the program's growth.

For MGAs, underwriting managers and program administrators, this is a scenario that's becoming all too familiar. Despite solid planning and well-founded optimism, insurance program business has failed recently to produce the underwriting profit many people expected. During the last few calendar quarters, in fact, insurance program companies and their supporting reinsurers have been reviewing their lines of business carefully. In many cases, they've developed strategies that have resulted in nonrenewal notices of the type that arrived today in your inbox.

In the case of your firm, the soon-to-be-canceled binding authority represents an important revenue stream and involves several key employees. What should you do? One suggestion is to take a few days to clear your mind. After that, go to work on the problem in a systematic, analytical way, and get your program back on track. Here's how:



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You're an MGA, and you're about to lose your program's binding authority. Now what?

1) Make an objective assessment of your program's immediate and long-term objectives and needs. Based on that assessment, begin to think about what type of carrier partner you require. Consider such factors as the carrier's A.M. Best rating, policyholders surplus, management philosophy

and licensing flexibility. Then think about the level of compensation needed to cover your fixed and variable operating costs and include a reasonable operating margin.

2) Articulate your program in a written narrative. Start with the basics: the industry marketplace, a clear picture of the competition and the legal insurance requirements for that business sector. Next, define the size of the target risk universe, the premium and risk count, the size of your market niche and the key reasons you believe you can succeed with the proposed program.

Next, detail the desired risk, limits, coverages and average premiums for this program, along with the proposed policy form, coverage enhancements, applications and supplemental applications. Finally, prepare a commentary for the market in question. Where is it today, and where is it headed?

3) Take a complete inventory of your program administration operation. Describe the history, ownership and key personnel of your operation, along with an assessment of your underwriter's acumen and familiarity with the product. Define and evaluate your production distribution network, and spell out your firm's ability to compile, manage and disseminate information. What are your firm's capabilities in regard to policy and endorsement issuance? Information technology? Marketing and advertising strategy?

4) What is your firm's historical experience with this type of program business? You should be able to successfully demonstrate a profitable underwriting track record, complete

with details. You need to provide informative loss-development statistics and detail such things as large incurred losses. Also include the average premium per line of coverage for each underwriting year. It is important that you be able to show favorable growth in terms of both market share and premiums.

5) Gather other important information. Can you describe in detail other programs and carrier relationships from your firm's recent past? Similarly, you should describe any recent technology investments you've made to further productivity and anything else that has increased your efficiency.

Once you've collected and organized all this information, it's time to match the critical characteristics of your program with the resources and interests

of a prospective carrier. Some larger firms have the staff and expertise to handle that matching process in-house. Smaller firms often do not have those resources and might want to

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consider using an outside consultant.

Finding that consultant is a challenge in itself. Consider a few of the questions you might want to ask a matchmaking company. Do they offer

niche-specific and alternative market programs on both national and regional levels? Can they offer an independent, objective analysis? Can they secure underwriting authorities on behalf of underwriting managers, MGAs and program managers? Do they have direct access to senior underwriting officers at major carriers offering both admitted and surplus lines? In short, do they have broad expertise that's not limited to a specific product line or market segment?

You'll need to fine-tune such questions to fit your particular situation. The expertise and experience of the organization you select are key. For the kind of long-term partnership you seek, asking the right questions and doing appropriate research are critical. 