

The Present Status & Future Growth of North American Binding Authorities



**PRESENTED TO:
INSURANCE MARKET CONFERENCES
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Coverholder History



- Created after US Civil War
- AAMGA organized 1926
 - Minimum membership requirements
 - Membership composition:
 - ✦ MGA's, MGU's, brokers, aggregators, program managers (US, Canadian & UK)
 - ✦ US & EU Markets
 - ✦ Business Services
 - ✦ State Surplus Lines and Stamping Offices
 - ✦ LMA; LiiBA; LAABA; CIAB; ACORD; MGAA
- 1987: Education Foundation created
- 1991: Under Forty Organization

Current Statistics



- **Over 1,000 US MGA's**
 - Range from large national operations to small single-state operations
 - ✦ Independently owned firms
 - ✦ Those affiliated with large brokers and insurers
 - Entrepreneurial and opportunistic characteristics of market
 - Freedom of rate and form
 - Dominated by specialty commercial lines not captured by standard market
 - ✦ Unique and high hazard risks
 - ✦ Unique market access and expertise
- **Over 40 in Canadian Provinces**

“MGA” Definition - NAIC



- National Association of Insurance Commissioners:
 - MGA Model Act 2002
 - ✦ Any person, firm, association or corporation who:
 - Manages all or part of insurer’s business; and
 - Acts as an agent with or without authority producing and underwriting gross DWP equal to or more than 5% of policyholder surplus
 - Adjusts or pays claims in a material amount
 - Negotiates reinsurance on behalf of insurer

“MGA” Definition - AAMGA



- Wholesale Insurance Membership Criteria:
 - **Underwriting** facility with delegated binding authority
 - ✦ MGA, MGU, Program Administrator/Manager, Aggregator, Broker
 - One Market (Admitted/Excess & Surplus Lines)
 - One Line of Business
 - \$ 1 million AWP
 - 3 letters of recommendation from other existing Wholesale Insurance members
 - Certification of Compliance with AAMGA Code of Ethics
 - Approval by Board of Directors

Current Statistics



- **2014**
 - Growth exceeded commercial lines sector
 - ✦ US\$33 billion vs. US\$26 billion in 2012
 - ✦ 12% of total commercial lines
 - 60% of top 100 P&C markets have MGA relationships
 - New entrants exceeded departures
 - Shift toward specialisation
 - Access to customer
 - Demand for alternative distribution sources
 - New entrants of desperate/naïve capital
 - Decline in claims adjustment/payment authority

Current Statistics



- **2014**
 - Focus on current relevancy and future sustainability
 - Greater adoption of technology and analytics
 - ✦ MGA's ability to adapt to change => long term growth
 - 85% of MGA's focused on mix of coverages:
 - ✦ General Liability
 - ✦ Professional Indemnity
 - ✦ Commercial multi-peril
 - ✦ Inland and Ocean Marine
 - ✦ Commercial Automobile

10 Key Drivers of Growth



1. More Capital / Competition
2. Continued innovation
3. Improved economy
4. Technology & automation
5. CAT risk lessons
6. Regulation
7. Specialisation & Commoditisation
8. Combination of exposures
9. Pricing support
10. M&A activity

US E&S Premium (In US\$ Billions)



Year	AWP	Variance	Lloyd's AWP	Variance
2014	\$40,234	6.7%	\$8,157	14.9%
2013	\$37,719	8.4%	\$7,099	13.2%
2012	\$34,808	11.8%	\$6,270	8.3%
2011	\$31,140	(1.8%)	\$5,790	--
2010	\$31,716	(3.8%)	\$5,789	(4.9%)
2009	\$32,952	(4.1%)	\$6,090	0.8%
2008	\$34,365	6.7%	\$6,062	(4.7%)
2007	\$36,637	(3.5%)	\$6,360	6.2%
2006	\$38,698	16.3%	\$5,989	28.1%
2005	\$33,301	0.8%	\$4,675	1.7%
1988	\$ 6,281	(4.3%)	\$1,237	(7.5%)

Market Participants



- **Managing General Agent:**
 - Represent insurers and act as intermediary between market and retail and wholesale agents
 - Bundle premium sourced by retail and wholesale agents
 - Granted certain authorities / delegated binding authorities
 - Perform certain risk control functions

Market Participants



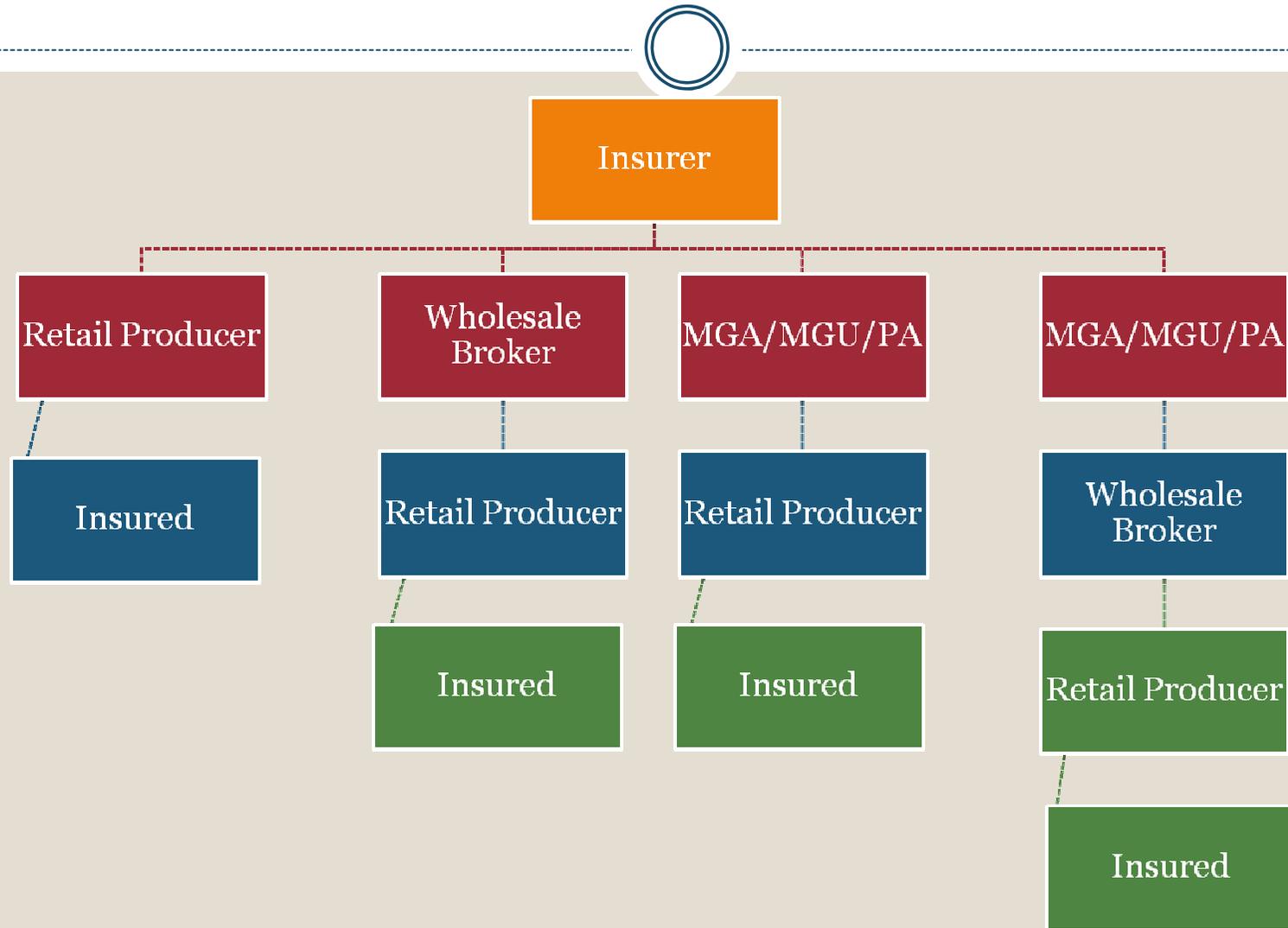
- Programme Administrator:
 - Interchangeable with MGA
 - Provide similar functions
 - ✦ Administer programme of homogeneous risks
 - ✦ Binding, premium collection and back-office functions
 - ✦ Loss control and claims handling responsibilities
 - Single or multiple LOB's

Market Participants



- **Managing General Underwriter:**
 - Many of same functions
 - ✦ Varying underwriting responsibilities
 - Broader underwriting guidelines based on greater LOB/program experience
 - Unique / difficult risk characteristics
 - Less market relationships

Distribution Scheme



Benefits & Risks



Benefits

Access to unique/attractive/specialty lines of business

Access to underwriting expertise

Access to distribution network of producers

Accelerated access to markets

Exit strategy

Risks

“Giving Away” / Entrusting the pen

Cost of business acquisition
(commission/profit commission)

Control of business

Mergers & Acquisition Activity



- Increased in 2014
 - Driven by:
 - ✦ Owners lack of perpetuation plans
 - ✦ Owners desire to monetize investment and access additional resources
 - ✦ MGA's relationship with markets and retail producers
 - ✦ MGA's market share in geographical region

Mergers & Acquisition Activity



- Increased in 2014
 - Driven by:
 - ✦ Acquirer's interest in top line revenue
 - ✦ Acquirer's interest in gaining control of block of premium; distribution network, leverageable cash flow and underwriting expertise
 - ✦ 10 – 12 times+ multiples of EBITDA for larger transactions; 6 – 8 times+ EBITDA from 5 – 7 times+ for smaller transactions
 - Future entrepreneurial efforts

MGA Lifecycle



- MGA seeks to grow through expansion of programs and markets

Independent
MGA

- MGA reaches critical mass and looks to acquirer for access to additional resources (e.g. capital, client relationships) to support growth opportunities

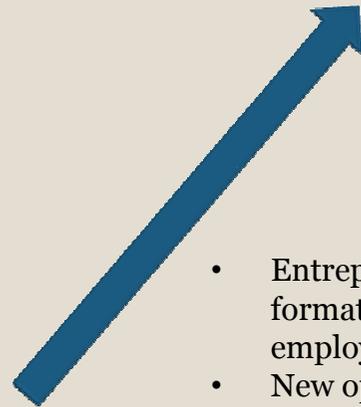
- MGA owner wants to monetize investment/obtain succession path

- Acquirer seeks control of block of premium ad bring MGA LOB expertise in house/expand to new market/jurisdiction

- Entrepreneurial spirit drives new formation by prior owners; prior employees
- New opportunities to capitalize on market voids

New MGA
Formation

Acquisition
Target



AAMGA Membership Composition - 2015



- 265 Wholesale Insurance members
- 127 US and international risk bearing (80%) and non-risk bearing (20%) Associate members
- 684 Wholesale & Associate Branch Offices
- 56 Business service members
- 14 US State Stamping & Surplus Lines Offices
- 462 Total Corporate Members
- 460 Under Forty Organization Members

The Present



- **265 Wholesale Insurance/Coverholder members**
 - 77% transact business as wholesale MGA/MGU with binding authority
 - 31% transact business as Program Administrators/Managers with binding authority
 - 29% transact business as Aggregators with binding authority
 - 23% transact business as Broker Producers without binding authority

The Present



- 265 Wholesale Insurance/Coverholder members
 - 70 members each with 20 or less employees
 - 81 members each with between 21 and 50 employees
 - 35 members each with between 51 and 125 employees
 - 72 members each with > 126 employees
- 21,877 employees
- 227 branch offices

AAMGA Membership Composition



- 265 Wholesale Insurance member demographics
 - 33.7% are 20 – 30 years old
 - 29.4% are 31 – 40 years old
 - 22.6% are 41 – 50 years old
 - 14.3% are over 50 years old
- 63.1% are under the age of 40 years old

The Present



- **265 Wholesale Insurance members**
 - Underwriting facilities with delegated binding authority
 - Total AWP:
 - ✦ 2014: US\$28.3 billion
 - ✦ 2013: US\$22.4 billion
 - ✦ 2012: US\$20.6 billion
 - ✦ 2011: US\$19.2 billion
 - ✦ 2010: US\$16.4 billion



Advocacy: US Legislative & Regulatory Activity



- AAMGA has met and liaised with, provided data and information to, and testified/submitted market data and intelligence to:
 - ✦ US Department of the Treasury
 - Office of Foreign Assets Control
 - Federal Insurance Office
 - ✦ Federal Reserve
 - ✦ Government Accountability Office
 - ✦ US House of Representatives
 - Financial Services Committee
 - Subcommittee on Insurance and Capital Markets
 - ✦ US Senate
 - Banking Housing & Urban Affairs Committee
 - Subcommittee on Securities, Insurance and Investment

Advocacy: US Legislative & Regulatory Activity



- AAMGA has met and liaised with, provided data and information to, and testified/submitted market data and intelligence to:
 - ✦ National Association of Insurance Commissioners
 - Surplus Lines Task Force
 - CAT Insurance Working Group
 - Terrorism Risk Insurance Implementation Working Group
 - International Insurance Relations Committee
 - Producer Licensing Task Force
 - P&C Committee
 - Solvency Modernization Initiative Task Force
 - ✦ National Council of Insurance Regulators
 - Member International Issues Task Force

Regulatory & Legislative Priorities



- Continue advancing the freedom of rate and form
- Reduce regulations that strangle innovation, creativity and free market competition/entrepreneurship
- Engage and advocate for pragmatic and proportional regulations where necessary
- Get on the radar screen
- Establish uniform eligibility requirements for surplus lines insurers as envisioned by the NRRA
- Harmonization of international regulations and laws for insurers (vs. financial services)

Regulatory & Legislative Priorities



- Work toward 100% implementation of Home State taxation of multi-state premium taxes
 - 41 states now adopt 100% Home State tax assessment and collection
 - 86% of nationwide S/L tax premium
 - 4 states/1 territory remain in NIMA:
 - ✦ FL, SD, UT, WY and PR
- Appoint the NARAB Board now and begin work on implementing the clearinghouse and the benefits
 - Letter demanding immediate implementation to FIO Director Michael McRaith

Regulatory & Legislative Priorities



- Proactively act on TRIA reporting requirements
- Continue to partner with PCI, CIAB, AIA, NCCI, NAPSLO, ISO, AAIS, FCA, Big I, PLUS, LiiBA, LAAIA, LMA, MGAA, Financial Services Roundtable, Federal and State House & Senate Insurance Committees, GAO, FIO, Treasury
- Liaise with the state stamping and surplus lines offices
- Expand the footprint of wholesale distribution of insurance in Canada, Mexico, Central and South America, Europe, Australia, Japan, China, and Africa as opportunities arise
- Support HR 2901 / S 1697 – clarifying definition of “private insurance” to include E&S on flood cover
- Respond to inquiries on TNC coverage in the E&S industry

Regulatory & Legislative Priorities



- No TNC legislation has been enacted that precludes surplus lines policies from providing the required TNC insurance.
- The following bills were implemented during the recent legislative session:
 - AK, AZ, CA, CO, DC, GA, ID, IL, IN, KS, KY, LA, MD, MN, MT, ND, NE, NJ, NV, OK, SC, TN, TX, UT, VA, WA & WI
- TNC legislation is pending in MA, MI, OH, & PA
- NAIC monitoring insurance issues related to ridesharing through the Sharing Economy Working Group.

Federal Insurance Office

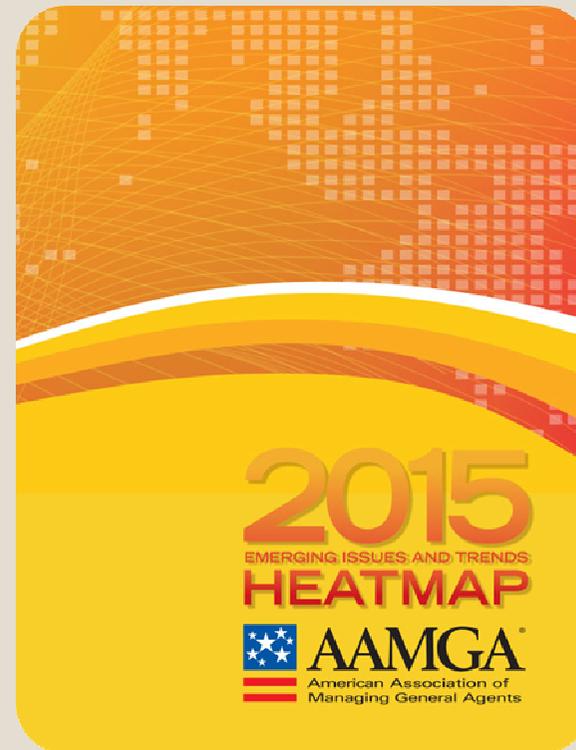


**WATCH
THIS
SPACE**
For
Important Announcements
of interest to you.

The Future



- Emerging Issues & Trends Committee
 - Identify
 - Evaluate
 - Research
 - Track & trend
 - Report



Relevancy



- Incubators
- Expanding potential of emerging professionals
- Expanding the talent pipeline
- Attracting & retaining new/specialized talent
- Record high capacity
- Latin American Insurance Agents & Brokers, Georgia and North Carolina Surplus Lines Associations; Chinese American Agents & Brokers Association; National African American Agents & Brokers; Lloyd's Market Association, MGAA (UK), LiIBA
- Gamma Iota Sigma

Relevancy



- Wholesale consolidation
- Cyber security & data loss
- Epigenetics and genomic modification
- Wholesale distribution value proposition
 - Market diversification – Market loss
 - Comparative raters – selling with emphasis on price v. service
 - Pressure on commission / Contingent commissions
 - Carriers performing more agency tasks
- Carrier consolidation

Relevancy



- **Technology Investments**
 - Rapid Raters
 - Big Data
 - Predictive Analytics & Models
 - Behavioral Pricing
- **CAT Exposures**
 - Weather pattern changes
 - CAT Bonds & Insurance Linked Securities
 - Increased focus on risk management
 - Solar storms, coronal hole & CME's
 - Power grid blackouts

Relevancy



- Knowledge transfer / Lack of perpetuation plans
- Non-traditional “insurers”
 - Google/Facebook & Amazon

Automation / Technology



- Automation Committee
- Annual Automation Conference
 - March 5-7, 2016, Dallas, TX
- Cloud computing security and sharing of architecture among customers
- Internet of Things
- Cyber Security



Expanding Globally – Responding Locally



- Liaise with 38 other international insurance groups and organizations
 - Added Canadian MGA's
- Liaise with other international regulators
- Diversity Committee

Collaborative Efforts with Lloyd's



- Annual meeting with Lloyd's Executives Team
- Coverholder Guidance
- 3-year Contract
- TOM
- Audit Scope
- FCA Regulations
- AML/OFAC Guidance & Compliance
- Tribunalization
- Automation & Efficiencies
 - "War on Keystrokes"



AAMGA Current Efforts



- Liaising with domestic and international trade associations and all segments of the wholesale insurance market
- Build-out of Canadian and Mexican MGA/MGU and program managers/administrators, aggregators and broker member benefits
- Fostering of relationship and efforts with London Brokers and Lloyd's
- Embracing the principles articulated in Vision 2025 & AAMGA's Vision 2020
- Enhancing diversity and inclusion initiatives to better represent the entire wholesale underwriting community
- Protection of the freedom of rate and form

AAMGA Current Efforts



- AAMGA University:
 - Mission Statement:
 - ✦ “The AAMGA University provides education to advance technical underwriting competencies and professional development, and to attract new talent, foster long-term relationships and, thereby, perpetuate the wholesale insurance marketplace.”
 - Key Tracks:
 - ✦ Beginning / Intermediate / Advanced
 - LOB Technical Underwriting
 - Testing to lead to Certifications (e.g. Package Underwriter, CIW)

Surplus Lines Underwriting Education



- **AAMGA University**
 - University West – August, Scottsdale, AZ
 - University East – March, Charlotte, NC
 - Underwriting Boot Camp – June, Chicago/Dallas
 - Underwriting Certificate – January – May 2016
 - High School Guidance Counselors
 - UFO Leadership Program
 - E&S Jump School
 - AAMGA Chair of RMI at Georgia State University

AAMGA RMI White Paper Contest



Industry Concerns Impact on the Wholesaler

- Increasing Capacity
- Federal and State Regulation
- Standard Markets Infringing on E&S Market
- Entrance of Nontraditional Companies into Insurance Industry
- Increasing Consolidation (Retailer, Wholesaler, Carrier)
- Erosion of Wholesale Distribution Value Proposition



2016 AAMGA Student
White Paper Research
Contest



AAMGA RMI White Paper Contest



Emerging Risks and how wholesalers can best address them

- Autonomous Vehicles
- Increasing Cyber Exposures
- Global Climate Change
- Impact of Hydraulic Fracking on Insurance Exposures
- Growth of Peer to Peer Sharing Economy



2016 AAMGA Student
White Paper Research
Contest



AAMGA RMI White Paper Contest



Technology and the Wholesaler

- Big Data Enables Use of Predictive Analytics
- Widening Technology Gaps
- Internet of Things
- Preparation for the Seamless User Experience
- Increasing Challenges in Workforce Dynamics



2016 AAMGA Student
White Paper Research
Contest



AAMGA Current Efforts



- **AAMGA University:**
 - Technical Skill Development
 - ✦ Lloyd's Track / Atlas / Auditor Training
 - ✦ Property
 - ✦ General Liability
 - ✦ Transportation
 - ✦ Personal Lines
 - ✦ Professional Lines
 - ✦ Cyber Liability
 - ✦ Coverage
 - ✦ Risk Taking
 - ✦ Pricing
 - ✦ Data & Predictive Analytics

AAMGA Current Efforts

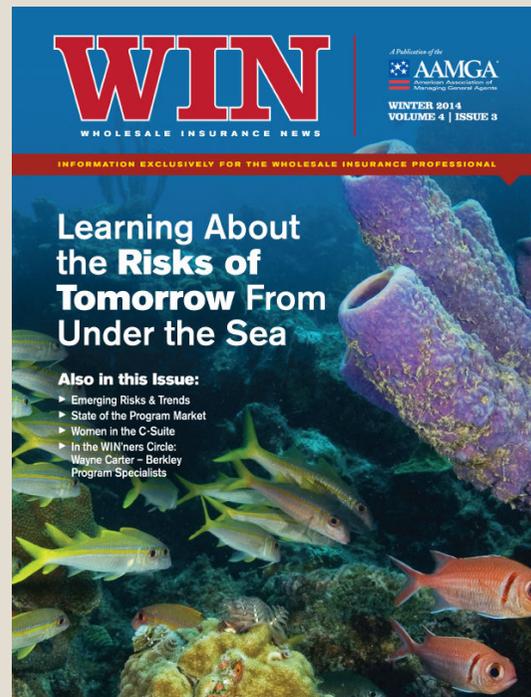


- AAMGA University:
 - Professional Development
 - ✦ Yellow Book
 - ✦ Picking Your Partners
 - ✦ Sales (Internal & External) & Marketing
 - ✦ Writing Skills
 - ✦ Communication/Email Etiquette
 - ✦ Management
 - ✦ Succession Planning Process
 - ✦ Work/Life Balance
 - ✦ Business Acumen
 - ✦ Accounting (Reading Financial Statements, Loss Runs)
 - ✦ Career Path Development
 - ✦ Emotional Intelligence

AAMGA Current Efforts



- Expansion of communications and outreach
 - “AAMGA News” Newsletter
 - Social Media Channels (Facebook, LinkedIn, Twitter)
 - “Wholesale Insurance News” magazine (1.4 million distribution)
 - Meetings App



Value of Membership Infographic



THE VALUE OF MEMBERSHIP

NETWORKING

PREMIER INDUSTRY MEMBERSHIP

GLOBAL NETWORK OF CONTACTS AND THOUGHT LEADERS

TRUSTED RELATIONSHIPS

ADVOCACY

GO-TO RESOURCE FOR DOMESTIC & INTERNATIONAL LEGISLATORS AND REGULATORS

ADVANCING THE WHOLESALE INSURANCE NETWORK[®] SINCE 1926

TRUSTED EXPERT SOURCE FOR INDUSTRY MEDIA

EVENTS

AAMGA
ANNUAL MEETING

AUTOMATION
CONFERENCE

UFO
ANNUAL MEETING

EDUCATION

AAMGA UNIVERSITY
EAST & WEST

UNDERWRITING BOOTCAMP & PROFESSIONAL DESIGNATIONS

WEBINARS RAISING COMPETENCIES & BEST PRACTICES

ENGAGEMENT

TIES TO RMI EDUCATION PROGRAMS

MENTORSHIP OF NEW PROFESSIONALS

VOLUNTEER COMMITTEES ADDRESS ISSUES & OPPORTUNITIES

VIBRANT UNDER FORTY ORGANIZATION

ADVANCING GREATER INDUSTRY DIVERSITY

AAMGA Volunteer Committees



- Automation
- Diversity
- Emerging Issues & Trends
- Governmental Affairs
- Human Resources
- Investment
- Marketing
- Membership
- Operations
- Program Steering Committee
- Under Forty Organization

- 153 members
- 15 UK members
- 43% Male
- 57% Female
- 68% Wholesale
- 39% Associate & Business Services

Challenges & Opportunities



- Relentless search for premium growth
- Commoditization among standard market LOB's
- Emerging risks
- Forecast of premium growth between 3% - 4% 2015-2017
- Overcapitalization impact on underwriting profitability
- Further trend toward specialisation; risk segmentation and customer affiliation => long term market share gains
- Greater adoption of technology and use of analytics in underwriting process => long term growth
- Recruitment/retention of key employees

Challenges & Opportunities



- Maintaining relevancy and enhancing sustainability across all segments of distribution chain
- Mergers & Acquisitions
- Chilling impact of non-harmonized and over-regulation
- Disintermediation

Challenges & Opportunities



- Preservation of freedom of rate and form
- Enhance credibility and indispensability of E&S market
- Pragmatic and proportional regulations
- Consistency and uniformity of regulations
- Consistency and uniformity in interpretation and compliance of regulations
- Extend diversity initiative
- Strengthen ties with RMI programs
- Enhance underwriting / business acumen education
- “Expanding Globally – Responding Locally”

Thank You



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