

DEFINING WIN-WIN CARRIER-MGA COLLABORATION

**FOSTER PARTNERSHIPS THAT FLOURISH INSIDE A
SUPPORTIVE & TECHNOLOGY-FUELLED CULTURE**



Key contributors from:



Managing
General Agents'
Association

MGAA



“Accelerant offers a 5-year capacity commitment so that MGAs can focus on industry-leading underwriting, growth, and customer service” Jeff Radke, CEO, Accelerant

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Introduction

Identified by many as one of the most customer-centric entities in the insurance ecosystem, due in part to their niche knowledge in terms of underwriting and customer needs, MGAs (Managing General Agents) are experiencing a period of positive development and growth, despite unfavourable (but improving) market conditions.

The community is flourishing, finding key differentiation to spark carrier interest, and demonstrating a superb ability to meet broker and customers' needs. But this is not to say MGAs can take their eye off the ball. The carrier-MGA relationship can go in several different directions, as we will see in this whitepaper.

If we are able to park the question of healthy Ultimate Loss Ratios, one can identify a number of key circumstances and attributes that exist inside of a successful carrier-MGA partnership. Beyond necessities of capacity and genuine differentiation on the MGA's part, there must be absolute trust and transparency; actuarial talent on both teams, a sense of realism in fledgling years, but above all, space and freedom to get on with it in the good times, and to access help in the not so good times.

It is a fascinating relationship in which non-conventional carriers are breaking new ground by empowering MGAs like never before.

Thank you to the MGAA (Managing General Agents' Association) and Accelerant for their contributions. As we all pick up the pieces post-pandemic, I'm looking forward to seeing this community continue to innovate and work collaboratively.

I hope you enjoy the whitepaper.

Graham Proud
Founder, CEO
The Lighthouse Collective





JEFF RADKE

ACCELERANT

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MICHAEL KEATING

MANAGING
GENERAL AGENTS'
ASSOCIATION

"We are committed to supporting our members and are preparing a menu of actuarial support to level the playing field for MGAs."

Michael Keating



GRAHAM PROUD

THE LIGHTHOUSE
COLLECTIVE

"Carrier-MGA partnerships constitute some of the most exciting collaborations in insurance- If both parties are singing from the same hymn sheet."

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Insurance carriers in the traditional sense have understandably taken time to retune to a world disrupted by COVID-19. Notably there has been the roll out of remote working on a large scale as well as shifting products and services in line with COVID-19 requirements. Often less incumbered by massive infrastructure or legacy challenges, and amidst all the trials and tribulations that the global pandemic has presented, MGAs (Managing General Agents) have demonstrated a steely resilience, rarely matched by other players in the insurance ecosystem.

For example, during the heavy lockdown period beginning March 2020, MGAs were able to increase their distribution reach because brokers could not always get the service from insurers. They have retained business in this period and wrote a lot of new business too. They have quietly gone about surviving, even thriving in these unusual times, and for that, credit should be paid.

A survey by Clyde & Co earlier this year supports this statement and concluded that COVID-19 appeared to have had a limited effect on capacity. While carriers remain cautious about expanding MGA partnerships, sentiment is improving. Some 84% of MGAs contacted as part of this research said the impact of the pandemic has been neutral or even positive, compared with 74% of carriers who feel the same way. The same survey also reported that both the US and Europe are seeing a revival in the MGA market underpinned by an improving economic situation in North America.

What are the major challenges MGAs face today?

Irrespective of the pandemic or even soft or hard market conditions, the single biggest challenge for any MGA is undoubtedly capacity. 'Without collaborative support and capacity, the MGA simply cannot operate.' Says Michael Keating, CEO, MGAA (Managing General Agents' Association).

Keating goes on to explain that second to capacity, a key challenge for the community (influenced in equal measure by regulations and carrier operational practices), is the significant time required to onboard portfolios. One could say that if this is achieved within six months, then it is a job well done. Currently there is no widespread fix or recognized short cut to this process. Of course, this is understandable. There is necessary due diligence to be carried out on the carrier's part and requirements as set out by the FCA that must be adhered to; but it remains an issue of a particular sore nature for the MGA community, nonetheless.

Finally, an area that may cause concern, certainly within smaller or start-up MGAs is the lack of actuarial support. It makes sense. It is an added expense for a fledgling business, but it is vital when considering ULR (Ultimate Loss Ratio), future projections, and when faced with a significant team of

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actuarial talent across the boardroom table, as presented by carrier partners. It is an area that the MGAA is keen to assist with. The association is preparing to offer a menu of actuarial boosters to support their members that need it. With the ULR being such a central pillar to a MGA's success, and with insurers well-versed in the complexity that lies within the bigger picture, it is utterly plausible that MGAs need to understand this language, just as well, if not better than their counterparts.

Michael Keating underlines this point by saying 'MGAs must have the capability to collaboratively challenge their partners and interact on a level playing ground when it comes to any discussions that hinge on the ULR.'

What is the appeal of a modern-day MGA to an insurance carrier?

Differentiation. If an MGA can demonstrate a clear area of differentiation; in other words, show a carrier they can deliver an area of specialism that the insurer cannot- then the appetite to collaborate is created. This differentiation can take several forms including specialist or niche products and underwriting expertise; it can also be a level of service. Lesser discussed as an area that MGAs can provide value in, sometimes there exists a case where the carrier's infrastructure does not allow the level of required specialist service needed for a particular insurance product. In this case, the MGA can nominate this service as a 'differentiator.'

Exactly how the carrier and MGA interact on an ongoing basis can largely be influenced by the MGAs size and standing in the industry. There is an important distinction to be made between larger, more established MGAs and start-up or smaller MGAs that have lower infrastructure and resources. This is an important consideration as it affects what each party stands to gain from the relationship.

Larger MGAs can be said to be effectively 'renting' an insurer's balance sheet. This means that in the large MGA scenario, there is a greater similarity between the MGA and the insurer. This would go for pricing, actuarial, governance, underwriting- there may be similar capabilities within these functions on both sides. Generally, in this circumstance there would be a quarterly review, a look at the quarterly ULR results and a conversation on the direction of the business; what's running hot and cold. The compliance and governance teams will also compare notes to make sure that everything is up to standard and consistent in this sense. In this situation, the MGA is taking very little from the infrastructure.

However, when we move down the scale to smaller and start-up MGAs, we will see a situation in which the MGA may tap into their carrier partner's marketing, reserves, actuarial support, data insights etc. Here the interaction points are more regular, and the support and expertise that the insurer brings is critical.

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With this spectrum of interactivity, important questions are raised. From a carrier's perspective 'are we happy with the level of assistance we need or want to offer our MGA partner?' and from an MGA point of view 'are we maximizing our profitability by seeking 'X' amount of support?' This is not simple at all. Fledgling MGAs benefit greatly from carriers that can help, especially in the early days, and without that infrastructure, on-hand expertise and technology, their business would be unable to reach its potential. On the other side of the table, innovative carriers that are happy with high touchpoint partnerships are demonstrating unprecedented gains by assisting their partners, using unique technology and business models to supercharge that. Within the MGA community it has also been flagged that sometimes carriers are stifling progress by caging their partners' activity and micromanaging processes. The formula is not simple. However, get it right and a win-win scenario in the long-term comes into view.

What makes successful working partnerships between carriers and MGAs?

One such company that is striking an excellent balance between providing both the necessary support to their MGAs and simultaneously, encouraging its partners to succeed to their full potential is Accelerant.

Accelerant is a technology-fuelled insurance platform that empowers MGUs to serve small and medium enterprises more effectively and confidently. They are rebuilding the way that underwriters share and exchange risk by aligning incentives to improve outcomes for everyone, with a focus on the SMBs and their niche insurance needs. They are clearly a forward-thinking and innovative organization, not shy to push boundaries and innovate at pace. Unhindered by issues of legacy the team have built truly data-centric processes and solutions that sit on the cutting edge of insurance innovation. Accelerant describes itself as the 'non-carrier carrier' referencing a non-traditional, technology-driven approach as part of a new generation of insurers.

Jeff Radke, the company CEO believes the answer to how MGAs can be supported is two-fold: 'We as an organization believe that the innovative use of technology and data management act as a key differential support system to MGAs. That's almost a cliché now, but not when you identify the niche capabilities that impact on a MGA's ability to succeed.'

The other piece to empower MGAs that Radke championed is the necessity of establishing and maintaining a positive working relationship. 'So often, a large incumbent carrier may be harbouring a multitude of MGA partners, so many it becomes almost impossible to nurture any type of meaningful 'relationship' at all. This isn't necessarily the fault of the carrier, but a consequence of feeling a number of internal pressures to do more- but it's

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Jeff Radke, CEO,
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something we are very conscious of.' Therefore, Accelerant have made the decision to focus on a relatively small number of relatively significant MGA relationships. Accelerant call them 'members.' And this is entirely intentional in that it reminds Accelerant's employees exactly what the MGA partnerships constitute. These relationships are personal and committed and go way beyond tracking financial performance alone.

'Accelerant's members come in two flavors' explains Radke. 'One is long-standing, traditional, 10-year track record... They're looking for capital to grow and we can invest in that situation. Perhaps 30% of our members to date. The second is start-up, and Accelerant is capturing these companies from the get-go. These are organizations with a spark, looking to make 'a dent in the universe' and if we back them, then we de-risk their first 3 years.'

From a technology standpoint, Accelerant have developed its own tools to empower member performance and provide insight and direction at a speed that many traditional carriers would find difficult to match.

For Accelerant, a key tool is its InSightFull® platform. InSightFull® is homegrown data intelligence that provides actionable insights for Accelerant, its members and its risk capital partners. Heather Wentworth, Accelerant's Chief Data Officer explains: 'Our data intelligence tools use ML to classify, categorize, trace data lineage and flow and assess data quality at a field level, from the time we receive data through to every point it is used. It's amazing what you can do when you take very granular data and connect it in ways our siloed industry has not been able to see before.'

Accelerant believe that data is more powerful in the hands of those making decisions and able to perform action. The company therefore strives to build data literacy across their own organization and beyond that to members and partners. 'Building literacy can be as simple as how to read a report or incorporate data, or how to use a basic predictive model. Simply, we'd like everyone to understand this vital means of communication.' Says Wentworth.

Providing value to members using data is the number one objective for the Accelerant team and so it makes sense that a priority when it comes to data, is quality. 'We simply must produce analytics that are correct, otherwise we are not adding value for our members. Being mindful of data-intelligence methodologies, we can ensure the data is accurate and therefore the analytics applied are genuinely insightful.' Explains Wentworth.

Accelerant also have a very interesting approach to MGA selection. It is not a model that allows any MGA to join. In fact, Accelerant are very selective; they are collectors of management teams with a vision, and organizations that subscribe to their tech-fuelled, innovative approach. Jeff Radke elaborates: 'If

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the attitude is right, and there's a match in philosophy in terms of long-term success, then we are interested. The roll call of who we already have under our wing is eclectic; motor in Greece, sports association in Spain, cold storage warehouses in Norway, and we find strength and inspiration in that variety. The key selection criterion is the cultural match. We want companies that are aggressive in terms of their ambition. We want MGAs that expect a lot from themselves and in return we give a lot back.'

This philosophy is also something that Michael Keating subscribes to, as he explains: 'If there is a common approach in terms of culture and communication, then this will show both sides that a long-term relationship is possible. The early stages of a carrier-MGA partnership are therefore vital. Once a solid position of trust is established between both parties, the sky's the limit.'

What MGAs really need is a long-term commitment from their carrier, that goes beyond just a year; and a partnership where the carrier will stand by the MGA through thick and thin on route to a truly lucrative relationship in the forthcoming years. Accelerant offers a 5 Year Commitment of Capacity and Reinsurance so that MGAs can focus on growing business instead of renegotiating annual contracts. This is significant indeed as it dissolves one of the MGAs major headaches and protects fledgling organizations against hard market conditions.

The future looks bright for MGAs and carriers to work together successfully. But what is clear is that this partnership thrives or declines dependant on communication. 'It is vital that MGAs are the ones tapping on their partner's shoulder to flag an issue, not the other way around.' Says Keating. If however, both parties talk to each other through business plan and beyond, in all market conditions, and support each other's objectives as part of a non-invasive, but contributory culture, then perhaps Keating is right- the sky is the limit.

"The future is bright for MGA-Carrier partnerships but it seems the entire success or failure relies on excellent communication."

Graham Proud, CEO,
The Lighthouse
Collective

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For the industry and by the industry, we produce timely, non-generic thought-leadership content in the form of webinars, podcasts, roundtables and whitepapers. Our team are passionate about financial services innovation. We spend our time listening to senior leadership teams so that we understand exactly the challenges you are facing.

Members of The Lighthouse Collective are part of an exclusive group of individuals that both work in financial services and are dedicated to innovation in the sector. Members are worldwide and receive regular opportunities to take part in exciting webinars, podcasts and research projects. Members enjoy unrestricted access to The Lighthouse Collective's full suite of content. The Lighthouse Collective also owns and runs the industry publication 60SECS; short, snappy strategic points of view from industry CEOs and innovators.

For more information, visit the company website: <https://thelighthouse-collective.com/> or contact the company Founder: grahamproud@thelighthouse-collective.com

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Reference to a report produced by Clyde & Co on page 1 of the text can be downloaded here:

<https://www.clydeco.com/en/reports/2021/09/mga-opinion-report-2021-a-year-of-renewal-for-mgas>

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