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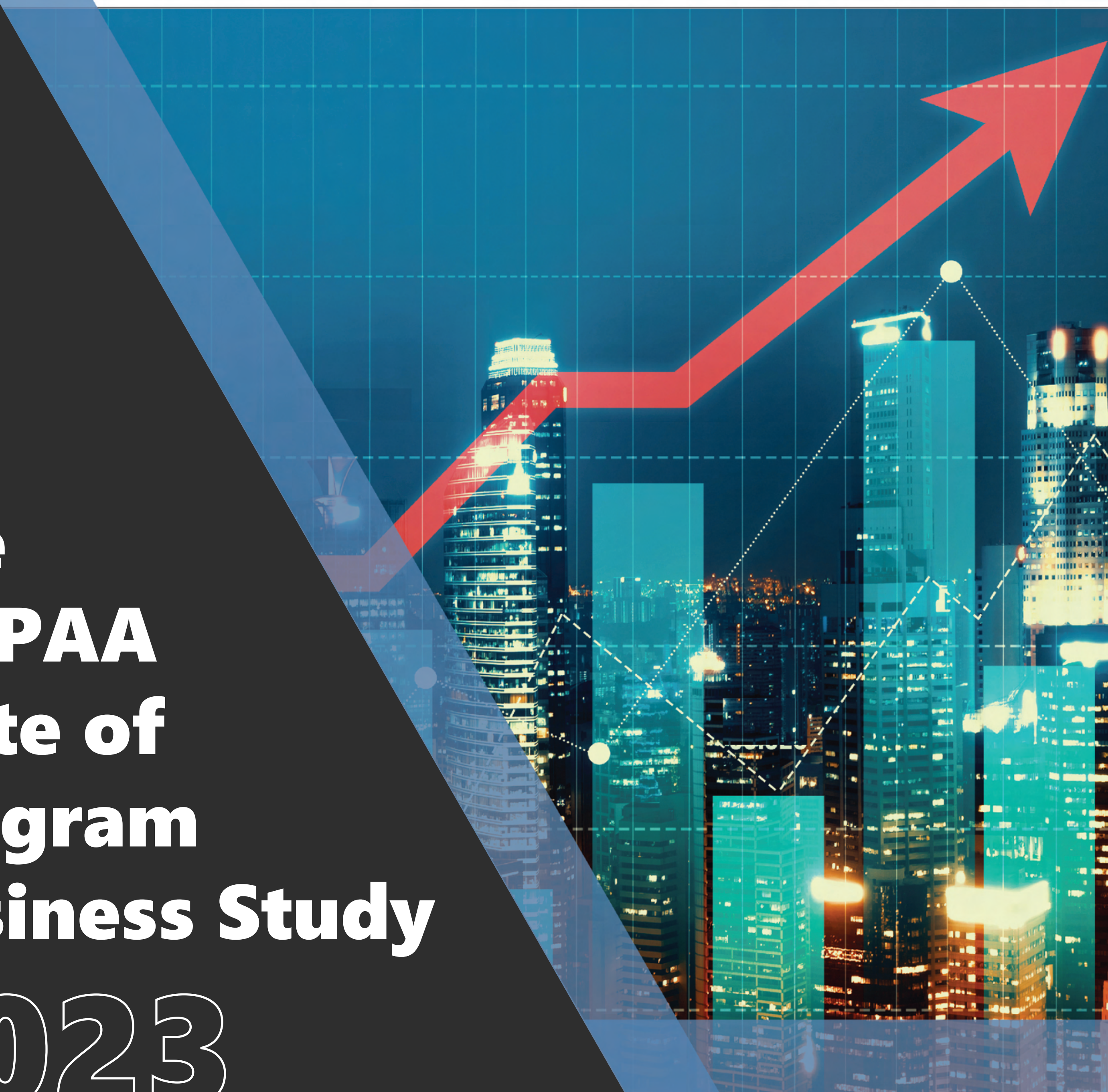
Program Administrators Association



The TMPAA State of Program Business Study 2023

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ZYWAVE
INSURING GROWTH

INTRODUCTION AND EXECUTIVE SUMMARY

Growth is the recurring theme in The Target Markets Program Administrators Association (TMPAA) State of Program Business Study 2023. As one administrator respondent aptly described it, "Program business has been the fastest growing sector in the P&C industry for the last five years [and this is] expected to continue."

In recent years, program business has encountered a multitude of challenges that led to a slowdown in the growth of premiums administered and a decline in renewal rates in 2020. Amid these challenges, administrators strove to innovate, adapt and find new ways to meet the evolving needs of their clients and partners. As a result, program business has regained its growth momentum in 2022.

The TMPAA State of Program Business Study 2023 found that program administrators (PA) enjoy a vibrant market as they reported positive results in terms of premiums administered, renewal rates and net revenue. The market grew substantially from $67.7 billion in 2021[1] to $79 billion in 2022. With its upbeat results, program business continued to outpace the overall commercial insurance marketplace. Administrators and carriers polled expect this trend to continue and see a bright future for the program space.

An important finding of the survey is that many administrators polled show mixed enthusiasm for the use of nontraditional carrier alternatives like fronting and hybrid fronting. They are also evenly split when it comes to the possibility of exploring them in the coming years. This year's survey gives a special focus on this phenomenon.

> *"The business is growing up and doing so rather quickly. If it is exploding with growth and potential now, it'll be interesting to see what it would look like when it further matures. How will its growth impact services provided, the size of the programs administered, and many other aspects? That's something to look forward to."*

The study also looked into other benchmarking areas that have a significant impact on program business. The 2023 poll includes a comparative analysis of program administrators' and carriers' practices and views regarding data analytics and machine learning, mergers and acquisitions (M&A), cyber coverage, insurance technology and work arrangements post-pandemic.

Consistent with previous iterations of The TMPAA Program Business Study, respondents were prompted to share their thoughts on emerging risks that are suitable for program business, the strengths and weaknesses of the business, and opportunities and challenges faced by the industry as well as future prospects.

Post-pandemic, administrators and carriers continue to grapple with old threats, such as administrator-carrier relationships, consolidation, capacity, and data concerns, while facing new ones.

[1]Target Markets Program Administrators Association (TMPAA), The TMPAA Program Business Study 2021 (Wilmington: TMPAA, 2021).

One poll participant likened these challenges to growing pains. "The business is growing up and doing so rather quickly. If it is exploding with growth and potential now, it'll be interesting to see what it would look like when it further matures. How will its growth impact services provided, the size of the programs administered, and many other aspects? That's something to look forward to."

The TMPAA State of Program Business Study is a biennial survey that documents the size of the program business and tracks various trends that shape the market. The study reflects the views of 155 program administrators representing 1,062 programs, 51 insurers representing 1,521 programs, and 21 service providers.

The TMPAA State of Program Business Study 2023 is the ninth in a series of surveys that started in 2011. The 2023 report presents 2022 business results.

The survey is a source of useful benchmarking data for more than 600 TMPAA members. The facts and figures from the report help program administrators and carriers conduct their businesses more efficiently and with greater proficiency and profitability.

The research was conducted by the TMPAA in tandem with Zywave. The production and publication of the benchmarking report were sponsored by Allianz, Amwins Underwriting, Aon, Doxa Insurance Holdings, Homesite Underwriting Managers, K2 Insurance Services, Mystic Capital and Vertafore—members of the TMPAA.

METHODOLOGY

For the ninth time, the TMPAA and Advisen, a Zywave company, worked together on a study designed to gain insight into the program space's current state and ongoing and emerging trends.

The online survey, which was conducted between April 24 and July 24, 2023, was completed at least in part by 206 respondents. Out of this number, 155 identified themselves as program administrators—companies offering insurance products targeted towards a particular niche market or class that are placed with one carrier. Fifty-one respondents identified themselves as insurance carriers or firms that delegate binding and underwriting authority to program administrators with whom they have a contractual partnership. The TMPAA identifies companies as program carriers if they have at least two current programs.

In estimating the number of program administrators in the United States, Zywave reviewed a list of administrators provided by the TMPAA, some of whom are members of the TMPAA and others who are not. These administrators were assessed to determine whether they fit the TMPAA's definition of a program administrator; the most crucial component of the assessment was binding and underwriting authority. Other sources and pieces of information, including company websites, were also reviewed in the process. Based on this review, the estimated total number of administrators in the United States is more or less 1,100.

As with previous surveys, the TMPAA and Zywave wish to highlight that, unlike other reports regarding the managing general agent (MGA)/program business space, which are based on general industry data, The TMPAA State of Program Business Study 2023 reflects the views solely of program administrators and carriers who are members of the TMPAA. Results are refined down to the TMPAA's description of a program administrator.

Continuing the tradition in previous surveys, the 2023 poll tracked the participants' program size and strategy, the pricing environment, risk appetite, involvement with insurance technology, cyber coverage, risk-sharing practices, and view of the hard market. Other key trends covered in the survey are fronting, hybrid fronting and artificial intelligence (AI).

These topics were designed and reviewed by a committee of TMPAA member program administrators and carriers, the TMPAA Board and Zywave. As with the previous surveys, the responses were collated and analyzed by Zywave.

In addition to answering quantitative survey questions, respondents also provided qualitative feedback by answering a set of open-ended questions meant to elicit further insight into ongoing trends. Program administrators and carriers provided commentary on the strengths and weaknesses of program business, the opportunities and threats they are witnessing, and the future of the program space.

For the first time since the survey was launched, service providers were invited to share their views on strengths, weaknesses, opportunities and threats they see in program space.

The TMPAA and Zywave also conducted an interview of the TMPAA Board and the survey's panel members to probe them regarding the impact of various issues on program business. Their commentary, which is included in the report's various sections, has further enriched the discussion on key topics.

Businesses of all sizes responded to this year's survey. Respondents were segmented into three roughly equal-sized groups based on premium volume. The smaller companies are those with gross premiums of up to $20 million. The mid-sized firms are those with gross premiums of between $20 million and $75 million, while the larger companies have gross premiums of more than $75 million. A comparative analysis of these group's practices and views was conducted to provide further insight into the various survey topics. Significant differences were also highlighted between the larger and smaller program administrators.

In the study, profit margin is calculated as net income (including contingents) as a percentage of revenue, while average revenue is defined as the average of the middle of the revenue ranges provided by each respondent.

KEY FINDINGS

- Program business in the United States has grown exponentially in the past decade. Since the launch of The TMPAA State of Program Business Study in 2011, it has documented the growth of premiums from $17.5 billion in 2010 to $79.07 billion in 2022—a 352% leap.
- After reporting a slowdown in growth during the pandemic, The TMPAA State of Program Business Study saw growth getting back on track as administrators reported positive results in terms of premiums administered, net revenue and renewal rates.
- Administrators' and carriers' views on the impact of the hardening market in terms of pricing, capacity, reinsurance availability, and terms and conditions are fairly aligned.
- Program business is positioned for further expansion as administrators polled indicate plans to introduce more programs and carriers pursue expansion through new programs.
- Administrator and carrier respondents reported rate increases across most lines of business but witnessed moderation due to slower increases, mirroring insurance industry reports on commercial P&C premium prices.
- Many administrators show mixed enthusiasm for the use of nontraditional carrier options like hybrid fronting and fronting.
- After slipping from 58% in 2018 to 45% in 2020, the percentage of administrators using a Lloyd's syndicate for program business further declined to 39% in 2022.
- The majority of administrators still tend to provide core services in-house, but declines were observed in certain services, including marketing, rating and issuing software, data analytics, claims administration and policy issuance. Interestingly, a look at how the delivery of services has evolved over time shows that administrators are starting to outsource core services. This is particularly evident in marketing, data analytics and policy issuance.
- Carriers polled are not keen on acquiring administrators. The percentage of those saying that they have no immediate plans to acquire increased materially from 46% in 2020 to 73% in 2022.
- Cyber take-up rates increased for the second survey in a row for both administrators and carriers.
- The percentage of administrator and carrier respondents who said that insurance technology is causing them to consider a change in distribution significantly declined.
- Administrators and carriers both reported greater use for data analytics and machine learning among administrators. As with the previous survey, respondents appear to have greater use for these technologies in underwriting, followed by claims, administration, and loss control.
- Half of both administrators and carriers reported that their workforce is in a hybrid or flexible work mode.
- Program business continued to grow more quickly than the overall commercial insurance marketplace. While the size of program business rose 47% between 2020 and 2022, the growth in direct premiums earned for commercial property/casualty lines increased by only 21.3% over the same period.
- Despite active consolidation in the program space, the estimated number of program administrators in the United States increased from 1,000 in 2020 to 1,100 in 2022 as new entrants joined the space.

2022 Program Business

By the Numbers

The TMPAA State of Program Business Study 2023 shows exponential growth in the program space.

$79 billion
in premiums in 2022

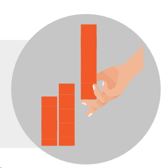
$53.8 billion 2020	47%	$79 billion 2022

increase in estimated size of the program business

352%
increase in premiums from $17.5 billion in 2010 when TMPAA inaugurated the market study, to $79 billion in 2022

Program business continues to outperform the overall commercial insurance marketplace.

47% increase in size of program business in 2022



21% growth in direct premiums written for commercial lines

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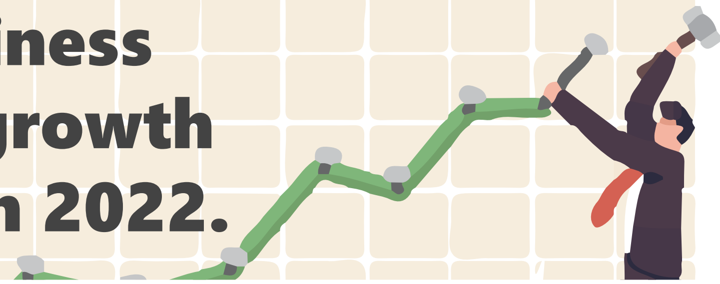
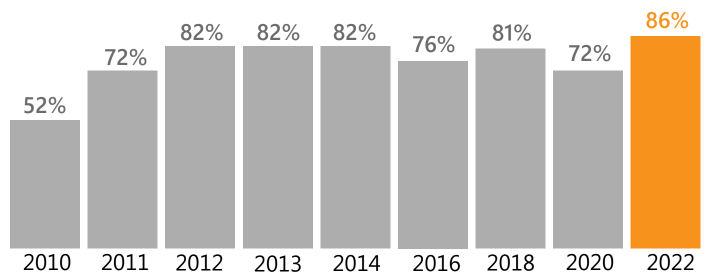
Program business regained its growth momentum in 2022.

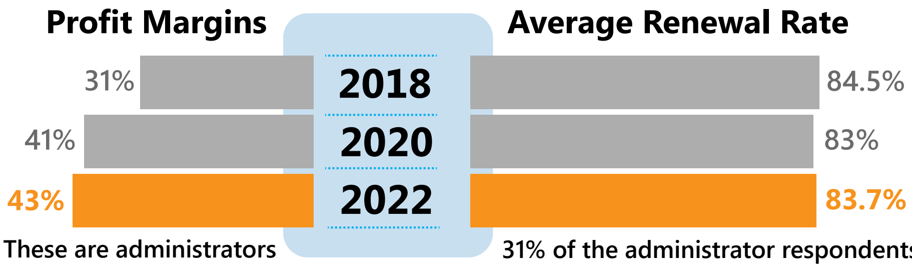


The percentage of administrators reporting increases in premiums rose significantly in 2022.



Average revenue increased from $13.1 million in 2020 to **$13.8 million in 2022**.

The percentage of respondents who reported increases in program administration revenues climbed from 71% in 2020 to **80% in 2022**.



These are administrators reporting profit margins exceeding 25%.

31% of the administrator respondents posted renewal rates of over 90%.

Despite M&A activity, **administrator population increased** from 1,000 in 2020 to **1,100 in 2022**, reflecting **enthusiasm for the business** as well as **growth of options** for developing programs.

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Larger administrators reported higher growth rates.

reported the greatest proportion of premium increases

posted the highest proportion of revenue increases

registered the highest profit margins

introduced more programs

Smaller administrators reported higher renewal rates.

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Amid a (not so) hard market, administrators still reported increases across many lines, but at a slower pace.

The TMPAA Program Business Study 2023 still found a **greater percentage of administrators** reporting **increases for most Lines of Business (LOBs)**.

The percentage of administrators who reported increases in rates rose for:

- **Liability** (+7%)
- **Property** (+6%)
- **Package** (+4%)
- **Professional Liability** (+4%)

The percentage of administrators who reported increases in rates dropped for:

- **Financial & Political Risk** (-43%)
- **EPLI** (-18%)
- **Cyber** (-9%)
- **Fidelity, Surety & Crime** (-8%)
- **Medical Malpractice** (-7%)
- **Management Liability** (-5%)
- **Automobile** (-2%)

The percentage of administrators who reported increases was unchanged for excess/umbrella.

While the percentage of administrators reporting increases for workers compensation increased in 2022, it still stood out because rate decreases far outweighed increases (72% vs. 28%).

The LOBs with the highest share of respondents reporting increasing premiums included automobile (96%), excess/umbrella (92%), property (92%), liability (91%), and professional liability (90%).

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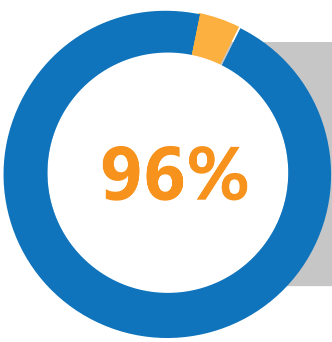
Program business is gearing up for further growth.

83%

of administrators polled plan to **introduce new programs** in the next two years.

96%

of carriers surveyed plan to **add new programs** in the next three years.



of carriers surveyed anticipate increasing the amount of premium written in the next three years.

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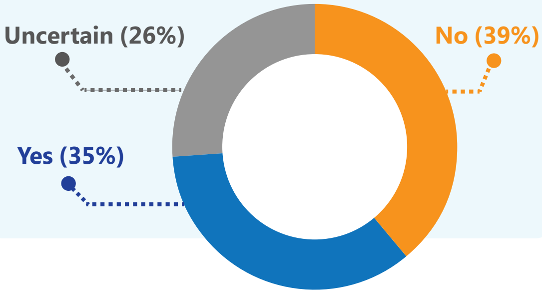
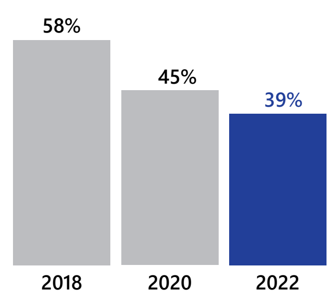
Administrators show mixed enthusiasm for use of nontraditional carriers.

75% of administrators surveyed still prefer traditional carriers over nontraditional options like hybrid fronting and fronting.

71% of the administrators polled did not move any programs from a traditional carrier to other options.

Views are split when it comes to plans to utilize **nontraditional carriers** in the **next two years**.





The percentage of **administrators** using a **Lloyd's syndicate** for program business

The percentage of **administrators reporting risk sharing** in both underwriting gain and loss **declined from 47% to 43%.**

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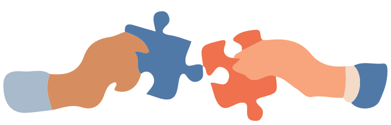
The percentage of **carriers** offering **risk-sharing agreements** where the program administrators (PA) shares a direct percentage of profit and loss of the program **dropped** marginally from **95% to 92%**.

Program Business: The M&A Picture

The percentage of carriers who expressed plans to acquire administrators to grow their business		The percentage of carriers who said a hard "no" to acquiring administrators
8%	**2020**	46%
2%	**2022**	73%



Boon or Bane? There are **mixed views** among administrators and carriers about consolidation being a **threat or an opportunity**.

What are administrators and service providers looking for in a potential acquirer?

- **Strategic alignment**
- **Financial stability & track record**
- **Cultural fit**
- **Commitment to innovation & growth**
- **Clarity of vision**

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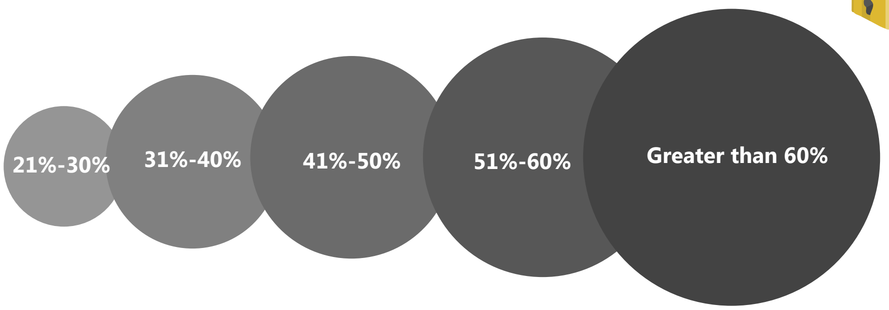
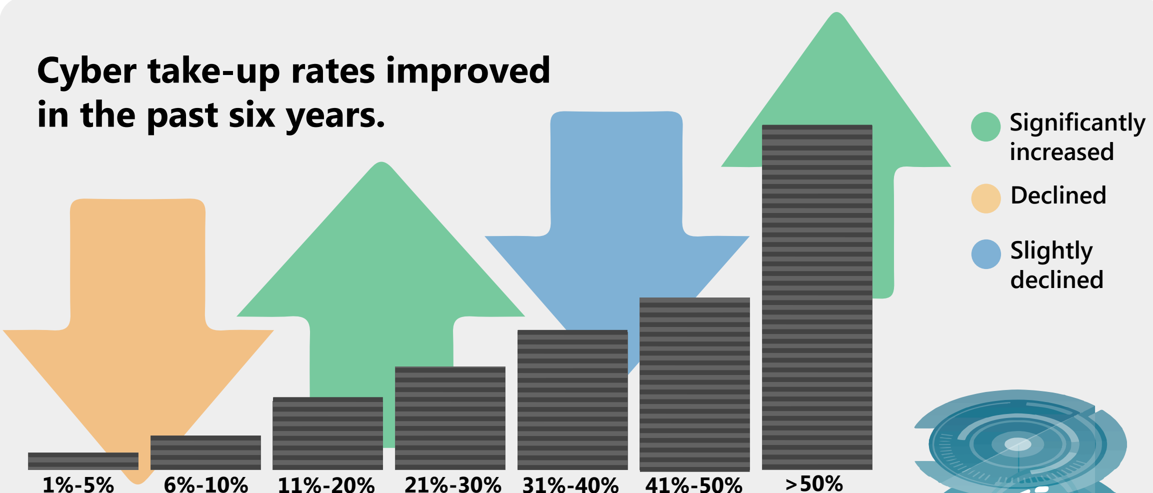
Cyber take-up rates in program business increased between 2016 and 2022.

The percentage of **administrators** reporting



in terms of percentage of insureds purchasing cyber cover **went up between 2018 and 2020**.

Cyber take-up rates improved in the past six years.



Consistent with the findings in previous years, administrators reported higher cyber take-up rates than their carrier counterparts.

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Delivery of services varies materially by size of administrator

Services that tend to be offered in-house across all administrator size brackets

- Strategic Alignment
- Policy Issuance
- Marketing
- Rating & Issuing Software
- Data Analytics
- Online Platform

Actuarial services		Claims administration and safety & loss prevention services
Tend to either offer the service in-house or use a combination of options	Larger Firms	Tend to be delivered either in-house or using a combination of mechanisms
Typically deliver through a combination of options or through a third-party provider	Mid-sized Firms	Delivered either in-house, outsourced to a third party or provided by a carrier
Tend to rely on their carriers	Smaller Firms	Tends to be provided by carriers or outsourced

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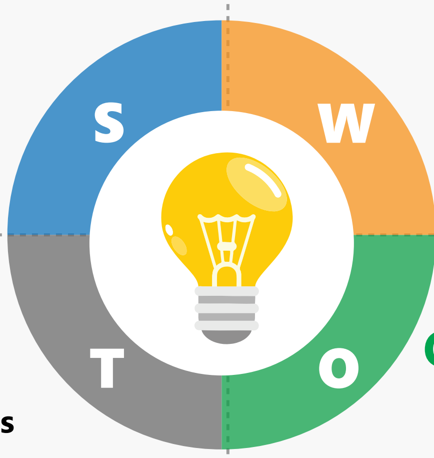
Administrators and carriers are fairly in sync in what they see as strengths, weaknesses, opportunities and threats in program business.

STRENGTHS

- Specialization
- Underwriting expertise
- Distribution
- Technology
- Responsiveness

WEAKNESSES

- Administrator-carrier relationships
- Competition
- Capacity concerns
- Reinsurance
- Poor underwriting



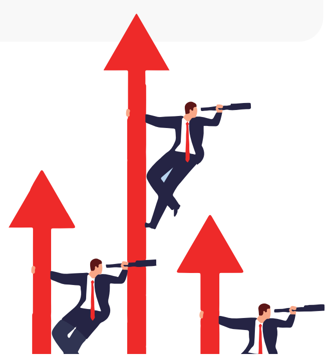
THREATS

- Capacity concerns
- Consolidation
- Reinsurance
- Competition
- Regulation
- Poor underwriting

OPPORTUNITIES

- Technology
- Data analytics
- Emerging risks
- Specialization
- Growth
- Consolidation

Administrators, carriers, and service providers have a general positive outlook for the program space.



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DEMOGRAPHICS

A total of 155 program administrators representing 1,062 programs responded to The TMPAA State of Program Business Study 2023. This is higher than the 144 respondents in the 2021 survey. The administrators varied significantly in terms of the number of programs administered, revenues and gross premiums written. This variety is crucial to understanding specific details about the survey participants' views and practices.

To provide a carrier perspective, insurer members of the TMPAA were invited to participate in the survey. Fifty-one insurers representing 1,521 programs completed parts, if not all, of the sections in the questionnaire. This number is the same as the 2021 survey.

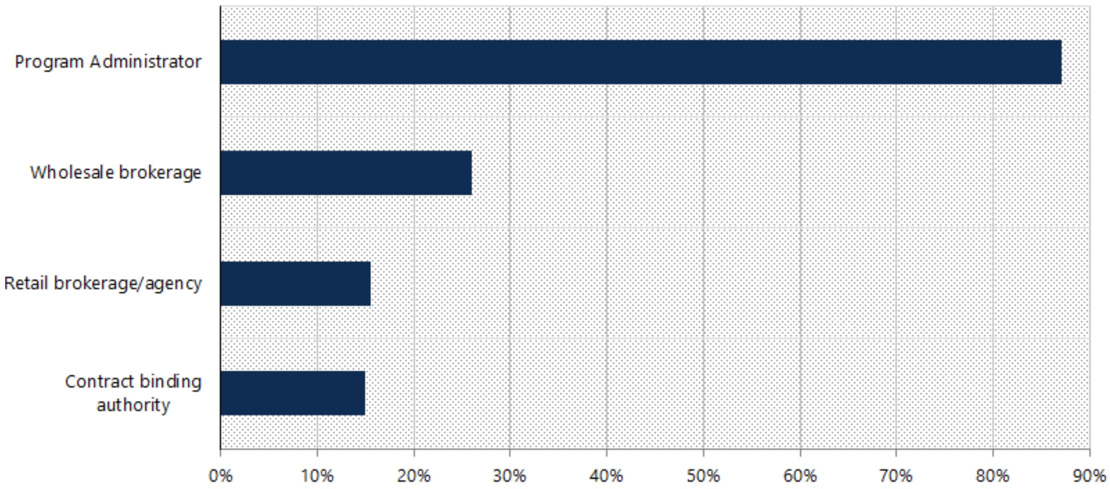
In addition, 21 service providers covering an array of specializations joined the poll. A third of them handle claims management, while 14% each are in data solutions and regulatory compliance. Ten percent each provide actuarial services, rating and issuing software, back-office underwriting/outsourcing, and capital and financial services. The remaining 5% offer M&A advisory.

PROGRAM INFORMATION

Program Administrator Information

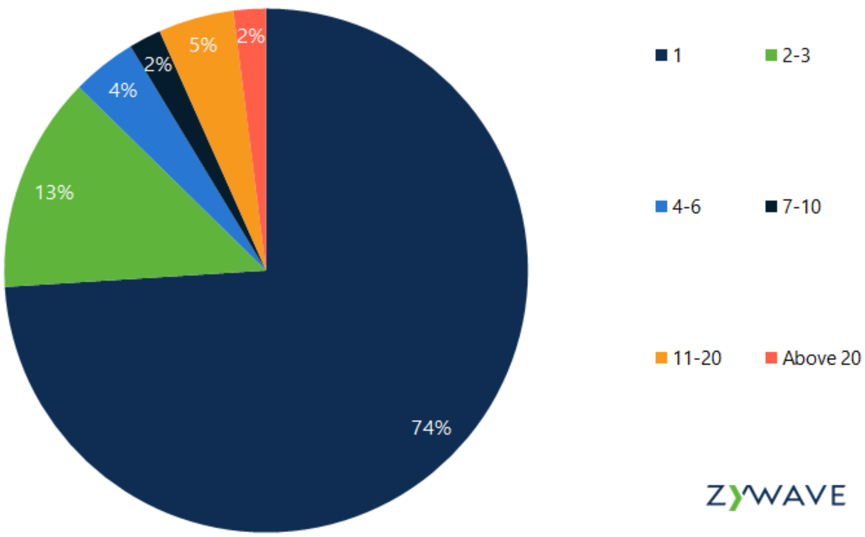
The majority of this poll's respondents identified themselves as program administrators, while 26% described themselves as wholesale brokerages, 16% as retail brokerages/agencies, and 15% as contract-binding authorities. This contrasts sharply with the survey respondents in 2021, only 58% of whom said they were program administrators.

DESCRIPTION OF FIRM



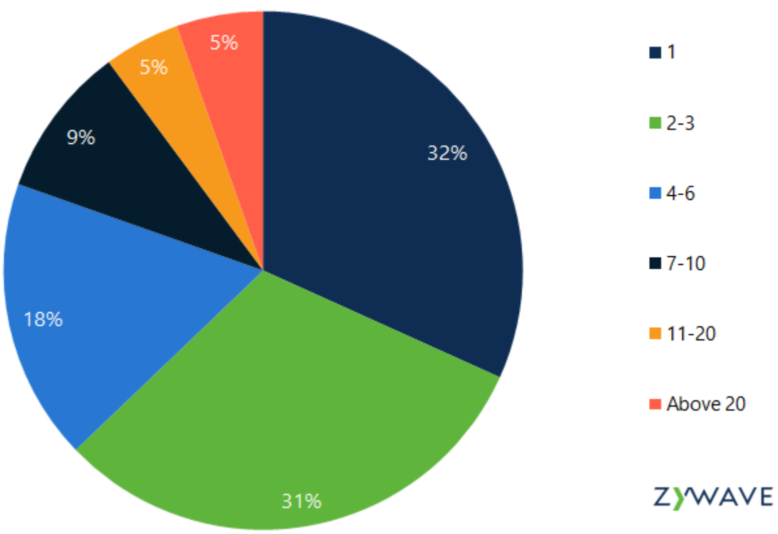
With the spate of acquisitions in the program space, the TMPAA and Zywave thought it best to ask survey participants about the number of separately branded program administrator agencies they are providing information on. As with the previous survey, the majority of respondents said they were providing information on one to three agencies. Five percent provided information on 11 to 20 agencies, 4% on four to six agencies, 2% answered on behalf of seven to 10 agencies. The remaining 2% provided information for more than 20 agencies.

NUMBER OF SEPARATELY BRANDED PROGRAM ADMINISTRATOR AGENCIES RESPONDENT IS PROVIDING INFORMATION ON



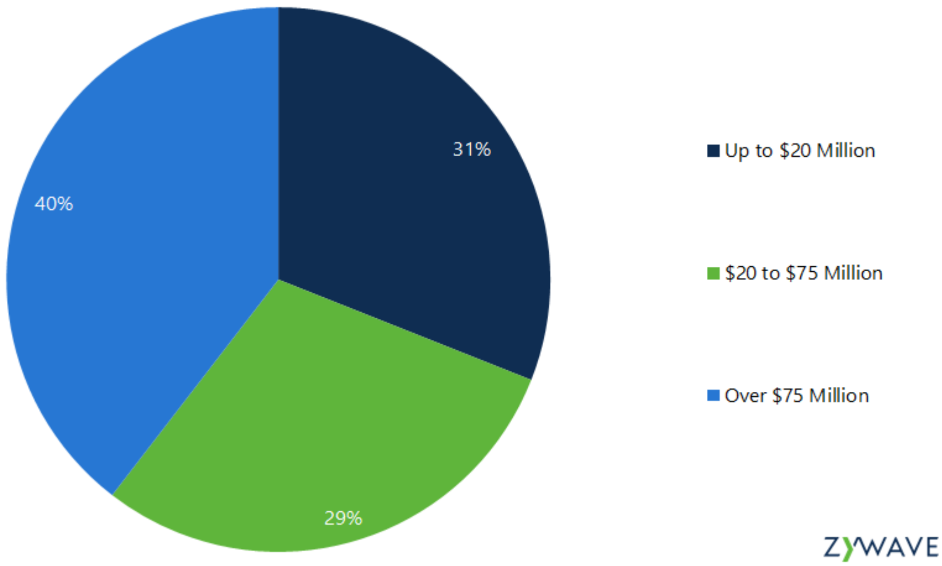
Sixty-three percent of the administrators polled responded on behalf of less than three programs in the aggregate; this is higher than 56% in the previous poll. Eighteen percent answered for four to six programs, 9% responded for seven to 10 programs, 5% answered for 11 to 20 programs, and another 5% represented more than 20 programs.

NUMBER OF PROGRAMS ADMINISTRATOR IS RESPONDING FOR

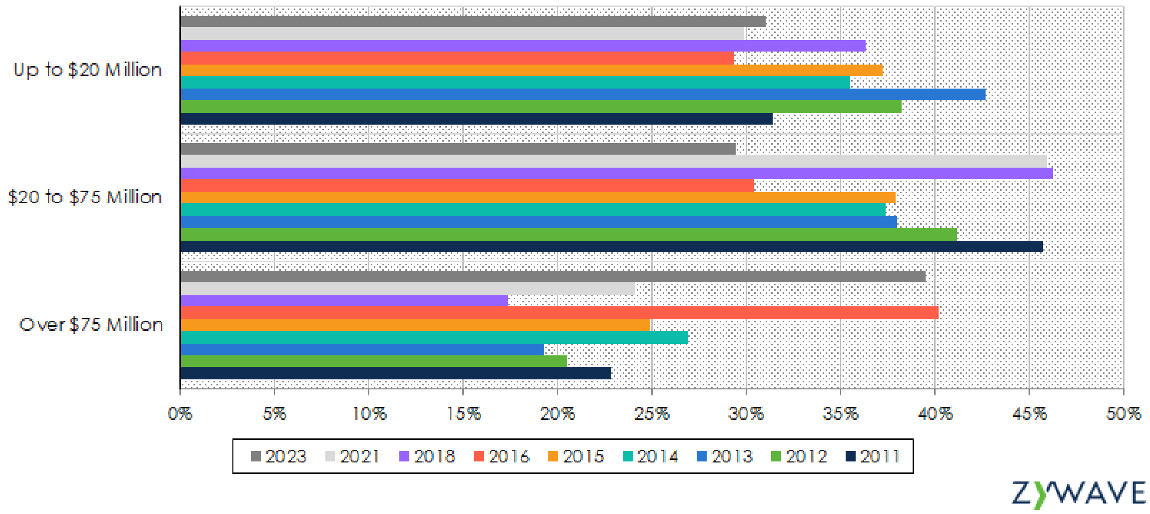


This year's respondents are materially larger in terms of gross written premiums compared to the previous survey's participants. Forty percent of the administrators polled say their total gross written premiums for programs are over $75 million, significantly higher than the 24% recorded in the 2021 survey. The percentage of respondents who say $20 million to $75 million dropped from 46% to 29%, while those who reported up to $20 million barely budged at 30% versus 31%.

GROSS WRITTEN PREMIUMS ADMINISTERED

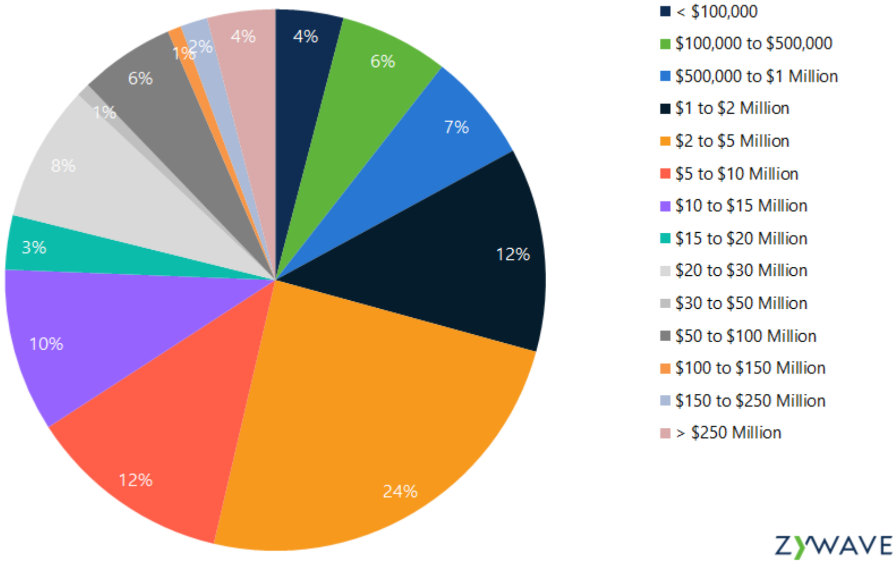


GROSS WRITTEN PREMIUMS FOR PROGRAMS ADMINISTERED (2011-2023)



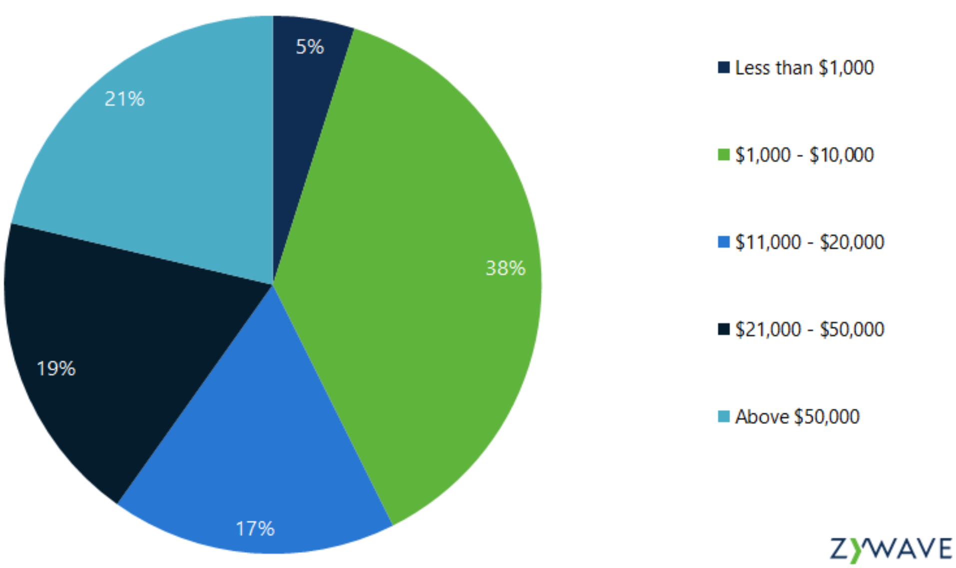
A little more than half of the administrators surveyed are from small firms with gross program administration revenues of less than $5 million, though the percentage declined from 56% in 2020 to 53% in 2022. Those reporting revenues of between $5 million and $30 million increased from 28% in 2020 to 33% in 2022. Those who reported revenues of more than $30 million barely changed (15% versus 14%).

PROGRAM ADMINISTRATION GROSS REVENUES (NOT PREMIUMS) IN 2022



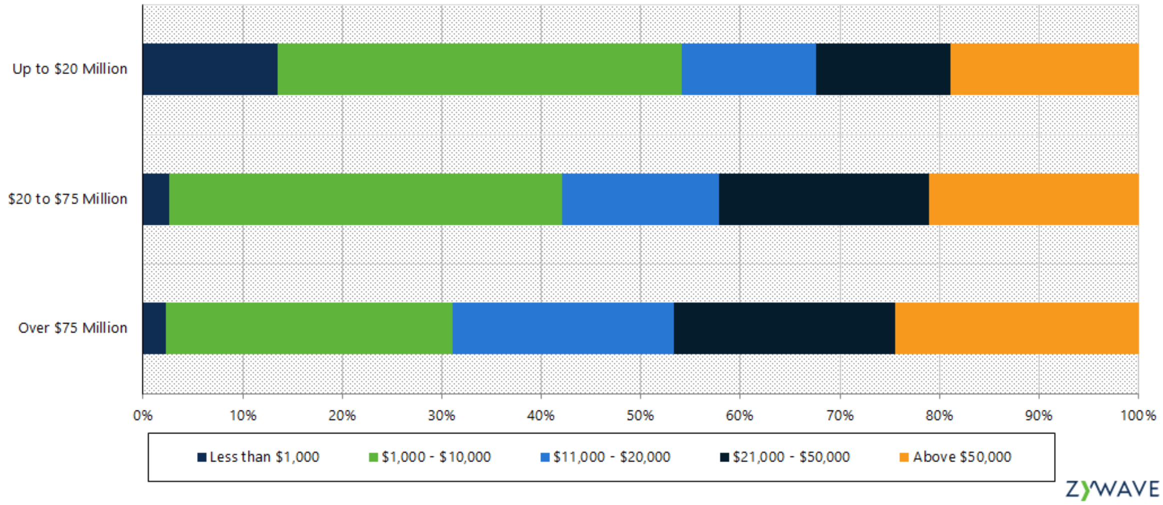
Administrators' average premium per account still tends to be small. Forty-three percent of the administrators surveyed reported an average premium per account of less than $10,000. This compares to 42% in the previous poll. Those who said $21,000 to $50,000 declined from 21% in 2020 to 19% in 2022, while those who reported $11,000 to $20,000 dropped from 19% to 17%. On the other hand, administrators who reported an average premium per account of more than $50,000 increased materially from 13% in 2020 to 21% in 2022.

AVERAGE PREMIUM PER ACCOUNT



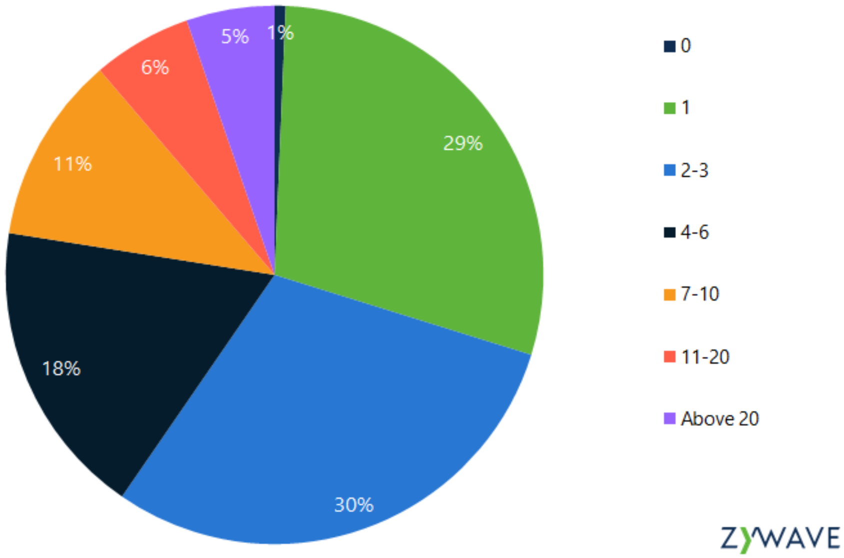
As with previous polls, larger administrators or those with premiums of over $75 million administered reported the highest average premium per account among the three premium brackets.

AVERAGE PREMIUM PER ACCOUNT BY SIZE OF ADMINISTRATOR



This year's respondents are also small in terms of the number of distinct programs they administer. Sixty percent of the respondents administer three or fewer distinct programs, while 18% administer four to six programs. Eleven percent of the administrators polled reported administering seven to 10 programs, 6% administered 11 to 20 programs, and another 5% administered more than 20 programs.

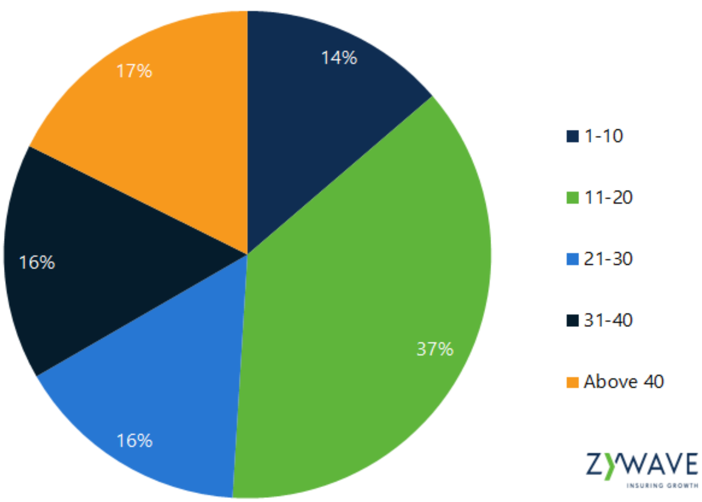
NUMBER OF DISTINCT PROGRAMS ADMINISTERED



Carrier Information

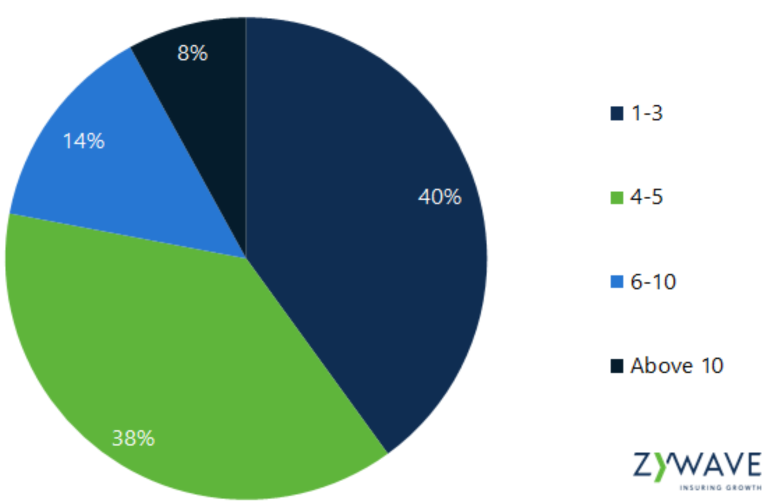
Thirty-seven percent of the carriers surveyed insure 11 to 20 distinct programs. Seventeen percent of the respondents insure more than 40 programs, 16% insure 21 to 30 distinct programs, 16% insure 31 to 40 distinct programs, and 14% insure one to 10 distinct programs. The percentage of carriers insuring more than 21 distinct programs declined from 56% in the 2021 survey to 49% in the 2023 poll.

NUMBER OF DISTINCT PROGRAMS INSURED



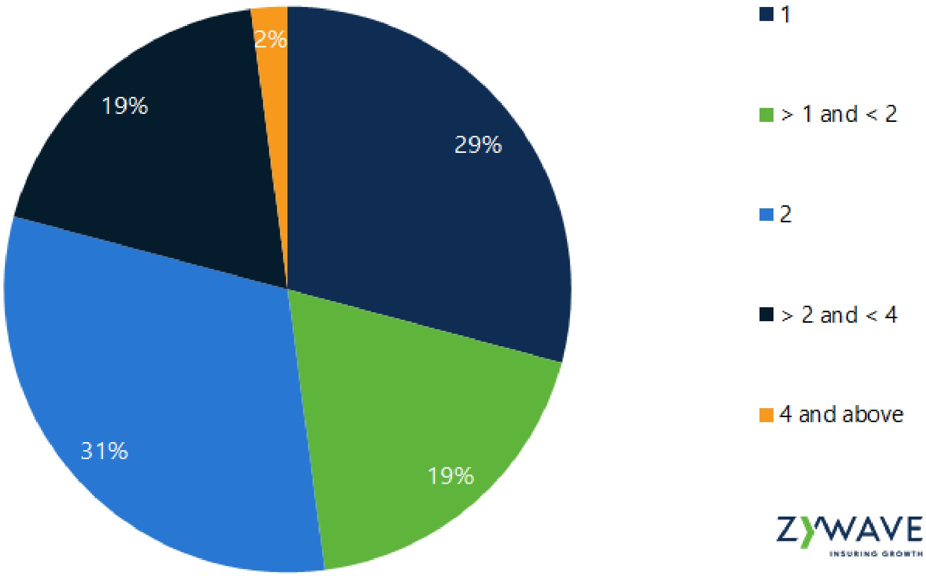
Forty percent of carrier respondents reported that their program underwriters manage an average of one to three programs—this is significantly lower than the 58% recorded in the previous survey. Thirty-eight percent of the carriers said the average number of programs managed by their underwriters is four to five, higher than the 24% recorded in the 2021 survey. Fourteen percent of carrier respondents manage an average of six to 10 programs, while 8% manage more than 10 programs. The percentage of carriers whose underwriters manage more than six programs increased from 19% in the 2021 survey to 22% in the 2023 poll.

AVERAGE NUMBER OF PROGRAMS MANAGED BY EACH PROGRAM UNDERWRITER



Reporting on the average number of programs offered on their company's program per program administrator, 29% of the carriers polled said one, 19% said greater than one but less than two, 31% said two, 19% said greater than two but less than four, and 2% said four and above.

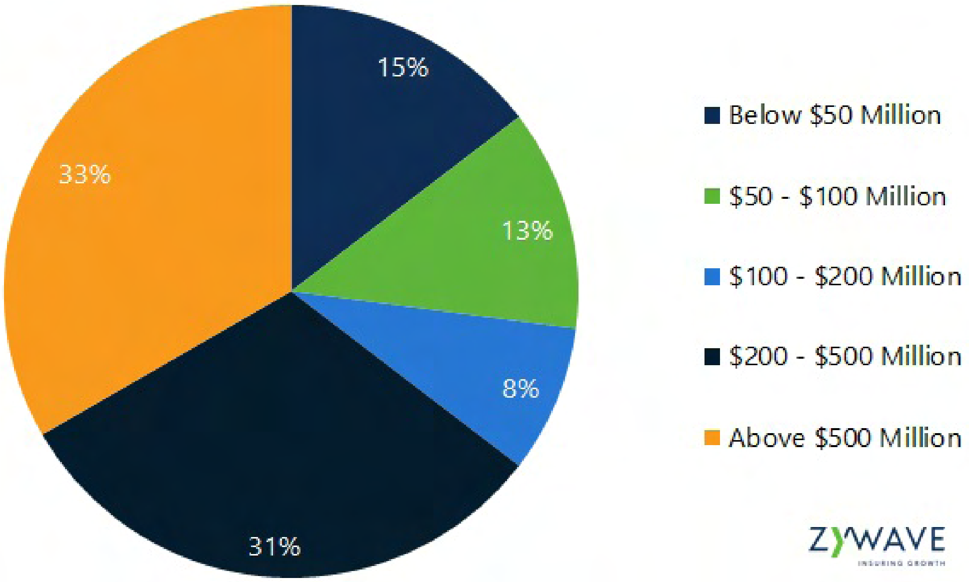
AVERAGE NUMBER OF PROGRAMS PER PROGRAM ADMINISTRATOR



The TMPAA and Zywave asked carriers what their total gross premiums are from programs and what percentage of their total gross premiums written programs represent. According to 33% of carriers polled, they total gross premiums of more than $500 million. This is higher than the 28% who reported the same in the previous poll.

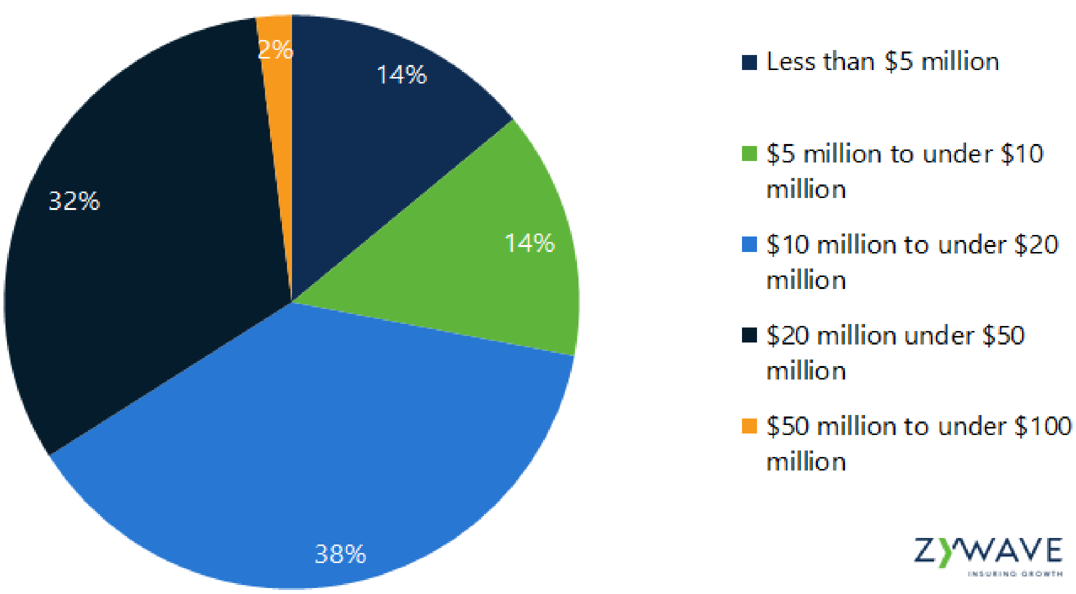
Thirty-one percent said their total gross premiums from programs are between $200 million and $500 million, a few percentages lower than the 35% posted in the 2021 survey. The percentage of carriers reporting total gross premiums from programs of $100 million to $200 million declined sharply from 17% in 2020 to 8% in 2022. Thirteen percent pegged their total gross premiums from programs at $50 million to $100 million, while the remaining 15% reported total gross premiums of less than $50 million. Those reporting having more than $500 million in total gross premiums increased from 22% in 2019 to 28% in the 2020 poll. On the other hand, carriers who reported less than $50 million dropped from 19% to 10%.

TOTAL GROSS PREMIUMS



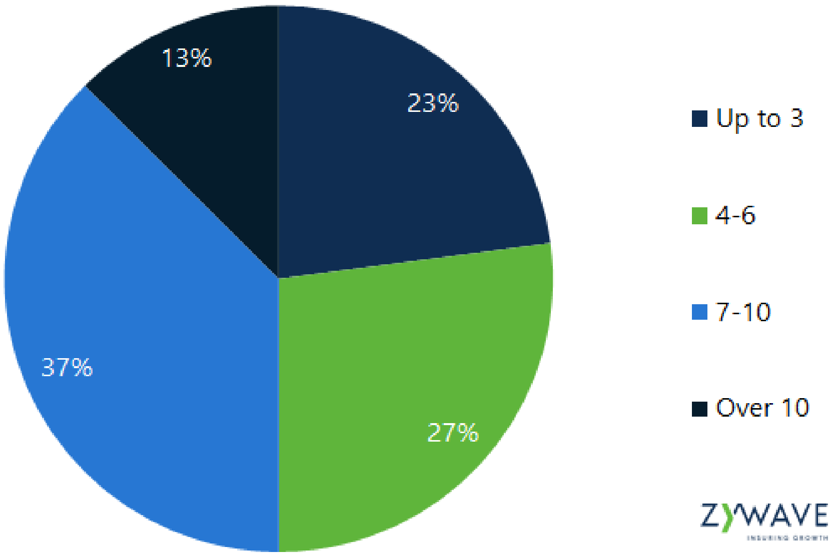
Thirty-eight percent of the carriers surveyed estimated their average premium per program at $10 million to under $20 million, a slight drop from 40% in the previous poll. Those reporting an average premium per program of $5 million to under $10 million dropped from 20% in 2020 to 14% in 2022. Another 14% of carriers polled pegged their average premium per program at less than $5 million. Those reporting more than $20 million increased significantly from 25% in the previous survey to 34% in the 2023 poll.

AVERAGE PREMIUM PER PROGRAM



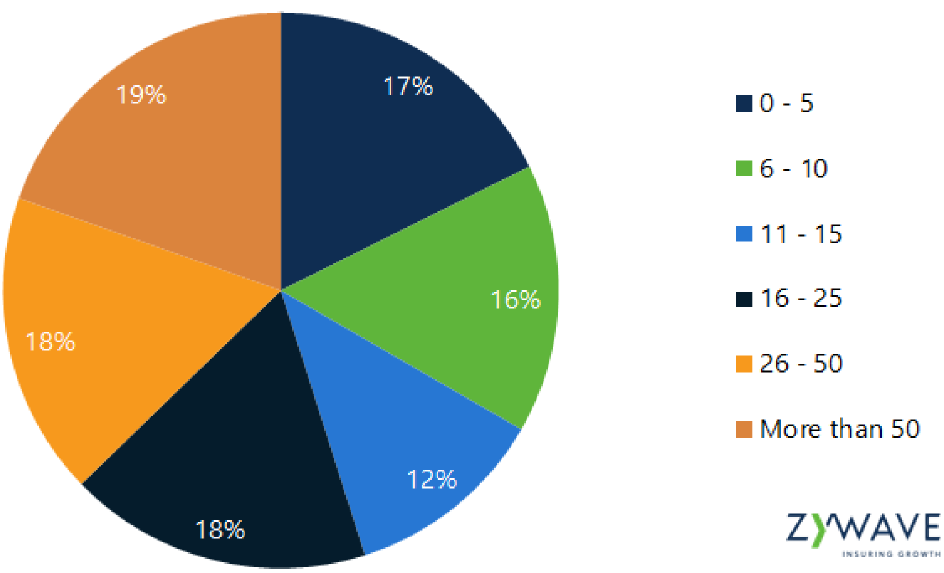
Thirty-seven percent of carriers surveyed say the average tenure of their programs is seven to 10 years. For 27% of carriers, the average tenure of programs is four to six years, while 23% say up to three years, which could reflect the impact of new program insurers. Those who reported an average tenure of over 10 years increased from 5% in 2020 to 13% in 202—a sign of maturation.

AVERAGE TENURE OF PROGRAMS



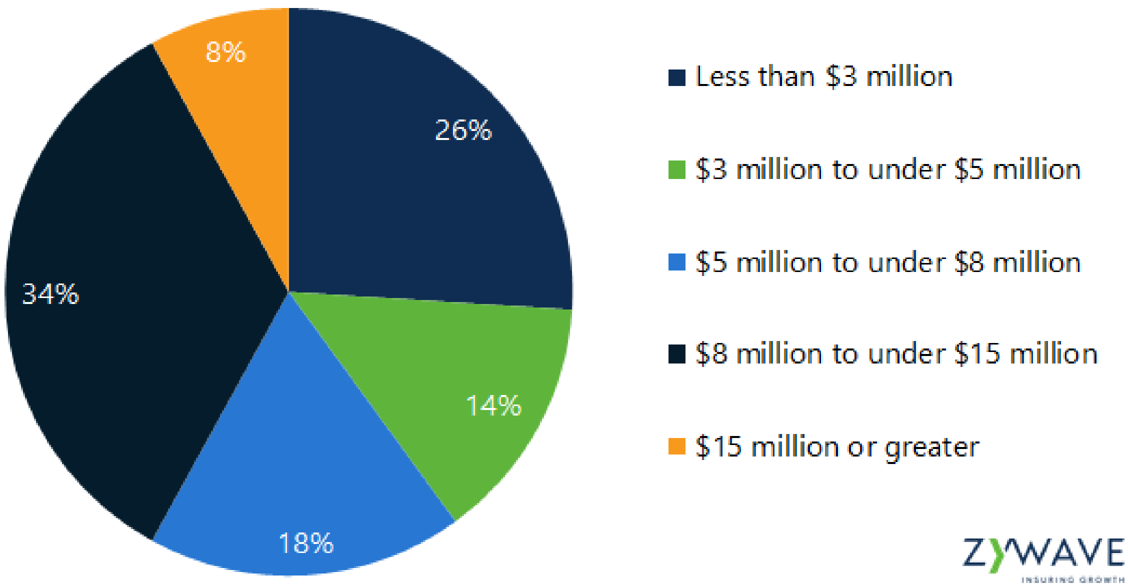
Nineteen percent of the carriers polled have more than 50 employees dedicated to program business, while 18 % have 16 to 25 employees. Another 18% have 26 to 50 employees working on program business. Seventeen percent employ less than five people for its program business, while 16% have six to 10 employees in the program space. Twelve percent of carrier respondents have 11 to 15 employees dedicated to program business.

NUMBER OF EMPLOYEES DEDICATED TO THE PROGRAM BUSINESS



Asked to provide their minimum requirement for existing premium volume to consider a program, 34% of the respondents said $8 million to under $15 million, while 26% said less than $3 million. For 18% of the carrier respondents, the minimum requirement is $5 million to under $8 million, 14% said $3 million to under $5 million, and 8% said $15 million or more.

MINIMUM REQUIREMENT FOR EXISTING PREMIUM VOLUME TO CONSIDER A PROGRAM



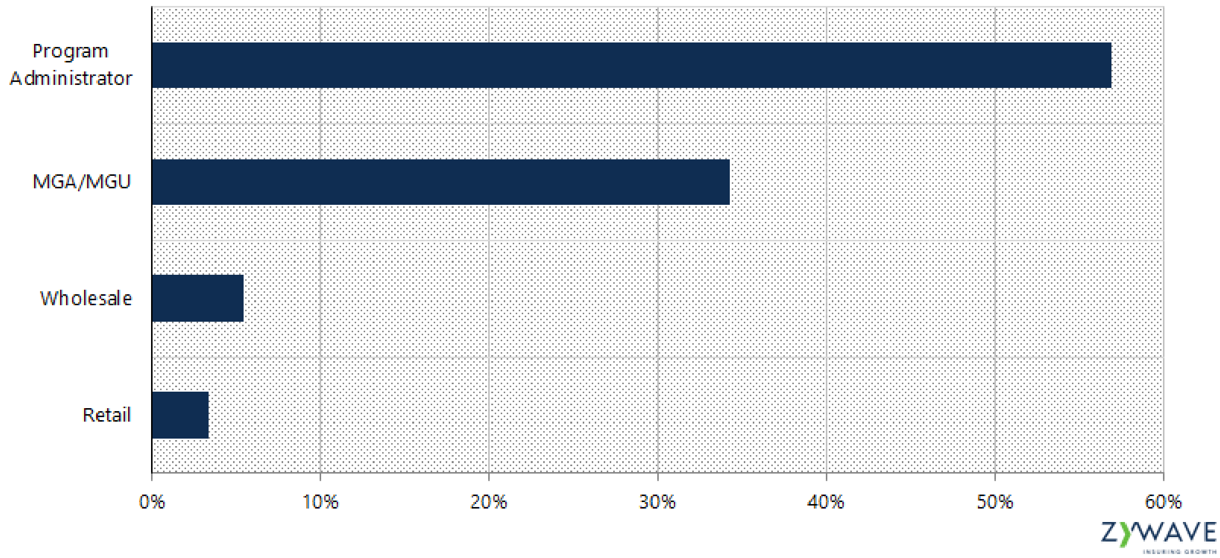
As for the percentage of the total number of programs by type of brokers/agencies, 57% come from program administrators, 34% are from MGAs and managing general underwriters (MGUs), 5% come from wholesale brokers/agencies, while 3% are from retail brokers and agencies.

The TMPAA describes program administrators as firms that offer insurance products targeted toward a particular niche market or class, generally representing a book of similar risks placed with one carrier. These specialty firms' activities include marketing, underwriting selection, binding, issuing, billing, premium collections, data gathering, claims management, loss control and, possibly, risk sharing. They distribute these programs on a retail or wholesale basis.

MGAs and MGUs are both types of insurance agency that manage the selling, policy administration, underwriting processes and claims management processes. They act as arms of a carrier.

The difference between program administrators and MGAs and MGUs is that an MGA usually does not possess the authority or underwriting capability of a program administrator.

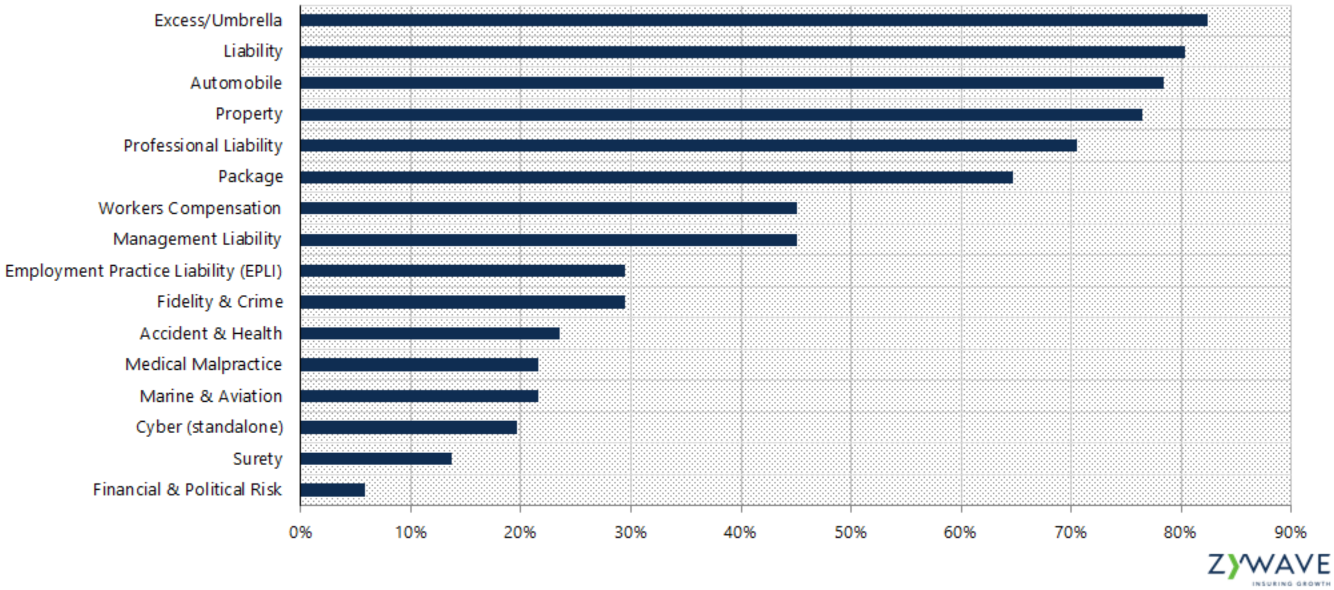
PERCENTAGE OF TOTAL NUMBER OF PROGRAMS BY TYPE OF BROKERS / AGENCIES



After topping the lines of business offered by carriers for two years in a row, liability was displaced by excess/umbrella. From 90% in 2020, the percentage of carriers offering liability dropped to 80%. On the other hand, those offering excess/umbrella increased from 71% to 82%. Property, which remained in the top five, declined from 86% to 76%. In contrast, those offering automobile increased from 74% to 78%.

Consistent with the previous survey, financial and political risk (6%), medical malpractice (22%), marine and aviation (22%), and cyber (17%) are at the bottom of the list. The percentage of carriers offering cyber declined significantly from 29% in 2020 to 17% in 2022.

PERCENT OF CARRIERS OFFERING LINE OF BUSINESS



DISCUSSION OF FINDINGS

I. Exponential Growth of Program Business

Program business in the United States has grown exponentially in the past decade. Since its launch in 2011, The TMPAA State of Program Business Study has documented the growth of premiums from $17.5 billion in 2010 to $79.07 billion in 2022—a 352% leap.

Between 2020 and 2022 alone, the estimated size of the market climbed 47% from $53.8 billion to $79.07 billion.

The study found that program business is growing more quickly than the overall commercial insurance marketplace. While the size of program business rose 47% between 2020 and 2022, the growth in direct premiums earned for commercial lines increased by only 21% over the same period.

Benchmarking of market estimates shows that the TMPAA's estimate is fairly aligned with data from Conning—which pegged the U.S. MGA market at $85.5 billion[2]—Aon's estimate of $86 billion[3] and ReSource Pro's estimate of $80 billion in 2022.[4]

In the delegated underwriting authority segment, direct premium written was estimated by AM Best in 2022 at $67.6 billion, an increase of 13.8%.[5]

The TMPAA Advisory Board looked into the factors that contributed to the acceleration of growth in 2022. "I would have to think it was driven primarily by the hard market," said Chris Pesce, National Programs Practice Leader at One80 Intermediaries. "The MGAs have experienced tremendous organic growth over the past couple of years. For the most part, for those not killed by COVID, they got the opposite."

Chairman of Steamboat Group David Jordan said, "It's the sum of all the rate increases compounded by exposure increases. Property values are up. Payroll values are up. Sales are up. It's been a growing economy the last couple of years, so those factors right there have a multiplicative effect. You've got standard carriers that continue to back away from tougher classes, and a lot of program administrators specialize in nonstandard coverages and classes of business, so that has driven growth, and as you overlay that on top with acquisition activity, it's like a triple whammy of growth."

According to Pesce, "Also, all these fronting companies that have come in, that's a relatively new phenomenon. There's a great deal of alternative capital available, but that may be starting to shift now. Looking over our shoulder, I believe this was a driver of increased growth in the program sector."

"You continue to have a shift of talented underwriters from insurance companies to delegated authority. I think that's a third factor driving it," shared John Colis, president and CEO of Euclid Insurance Services.

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[2] Conning, 2022 Managing General Agents: Firing on All Cylinders, Highlights, July 2022. https://go.conning.com/rs/461-JPO-444/images/2022%20MGA.pdf
[3] Aon, 2023 MGA Market and Carrier Analysis Data as of Year End 2022, 2023.
[4] Breading, Mark. Channel Strategies and Plans for MGAs: A View of MGAs' Growing Footprint in 2023. ReSource Pro Consulting. August 15, 2023.
[5] Sheehan, Matt, US premium growth in DUAE market continues: AM Best, Reinsurance News. April 27, 2023. https://www.reinsurancene.ws/us-premium-growth-in-duae-market-continues-am-best/

II. Program Business Regains Growth Momentum

After reporting a slowdown in growth in the previous survey, The TMPAA State of Program Business Study saw growth getting back on track as administrators reported positive results in terms of premiums administered, net revenue and renewal rate. “The program segment is enjoying a robust environment that should continue,” commented one respondent.

The percentage of administrators reporting increases in premiums rose significantly in 2022.

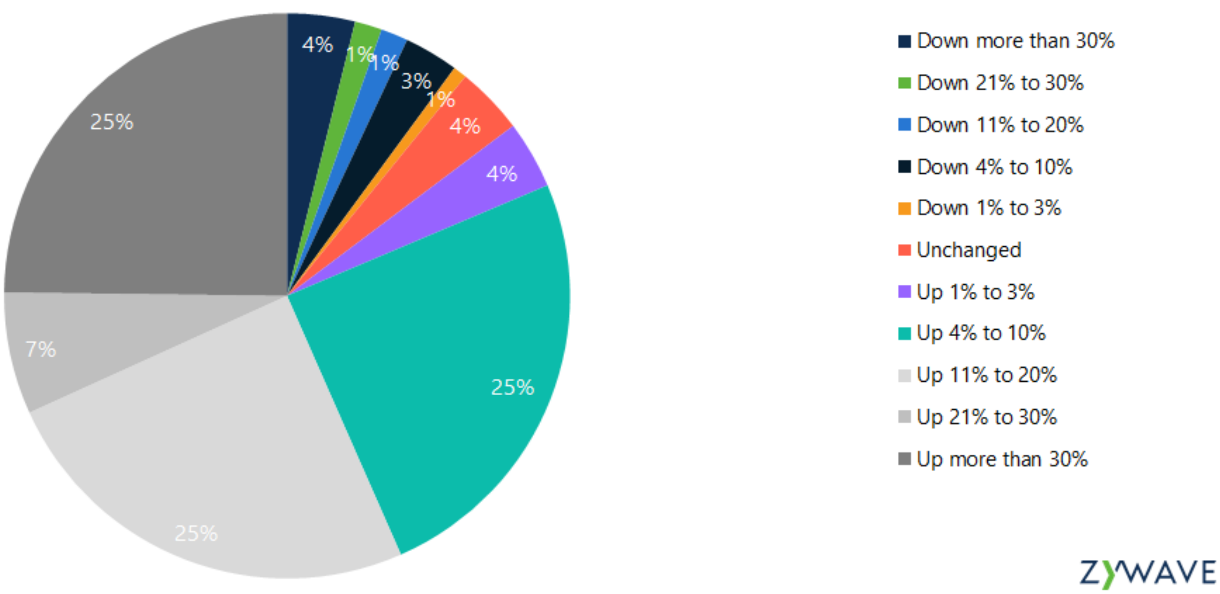
After dropping from 81% in 2018 to 72% in 2020, the percentage of administrators who reported increases in premiums rose to 86% in 2022—higher than pre-pandemic levels.

Among administrators who reported increases in 2022, 25% each said premiums administered climbed 4% to 10%, by 11 to 20%, and by more than 30%. Seven percent of these administrators said premiums administered increased by 21% to 30%, while 4% saw increases of 1% to 3%.

On the other hand, those who reported premium declines dropped from 17% in 2020 to 10% in 2022. Of this number, 4% declined by more than 30%, while 3% dropped by 4% to 10%. One percent each went by 1% to 3%, 11% to 20 %, and 21% to 30%.

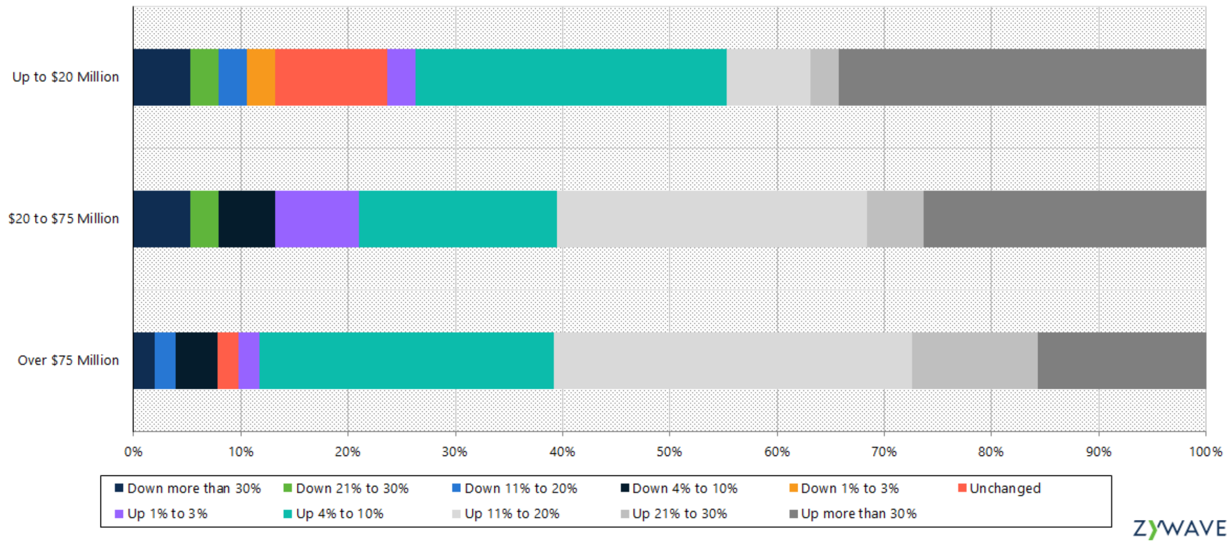
Four percent of respondents saw premiums administered unchanged. This is materially lower than the 11% who reported no changes in 2020.

PERCENTAGE CHANGE IN PREMIUMS ADMINISTERED



Consistent with the findings of the previous survey, the larger administrators or those with premiums administered of over $75 million reported the greatest proportion of premium increases in 2022.

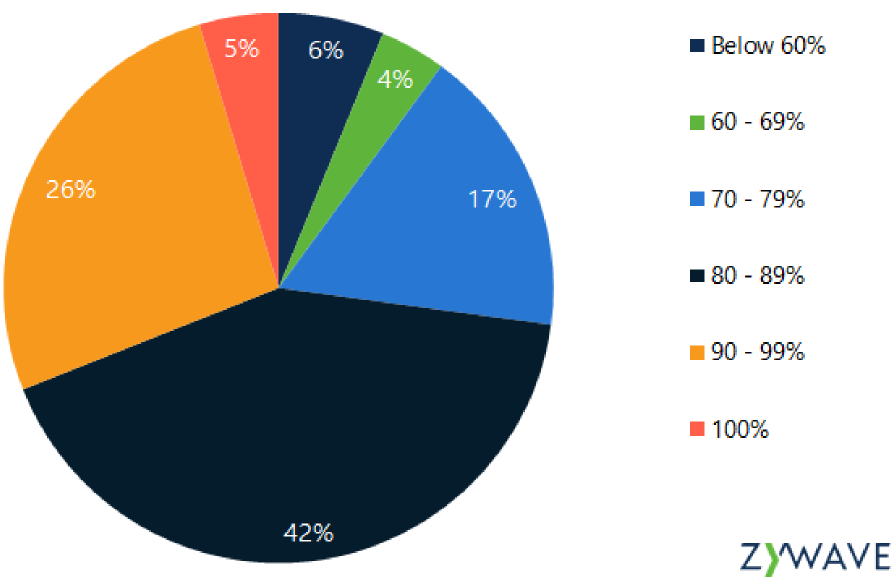
PREMIUM INCREASES BY SIZE OF FIRM



The average renewal rate was marginally higher in 2022.

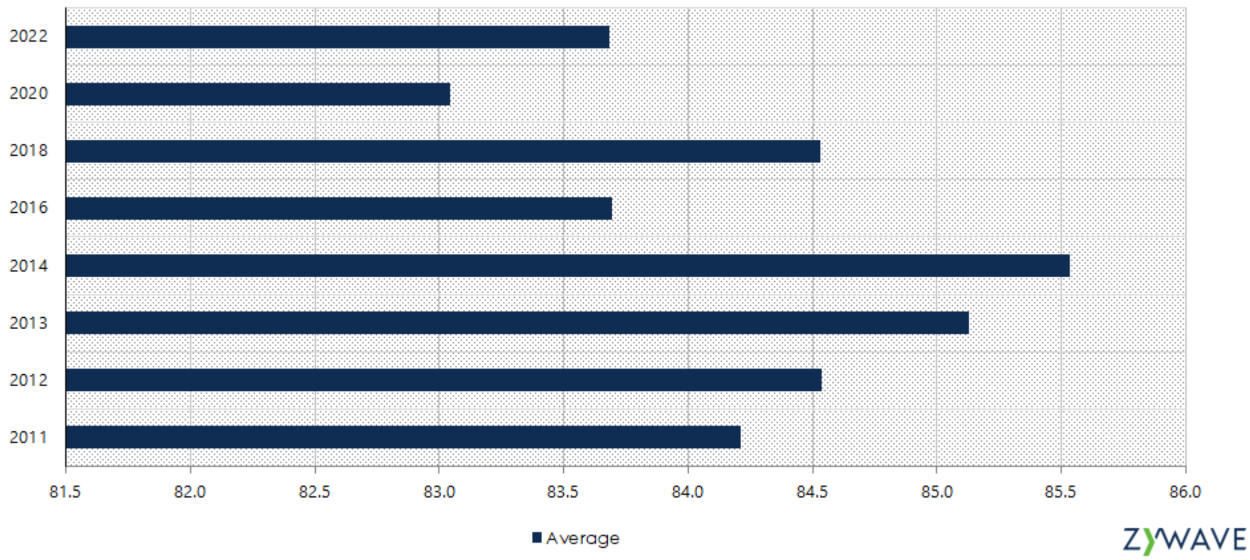
Thirty-one percent of the administrator respondents posted a renewal rate of over 90% in 2022, marginally lower than the 33% who reported similar retention rates in 2020. Forty-two percent registered a renewal rate between 80% and 89%, significantly higher than the 35% reported in the previous survey. Administrators with a renewal rate of 70% to 79% remained at 17% in 2022, while those with a renewal rate of 60% to 69% dropped from 10% in 2020 to 4% in 2022. Those with a renewal rate of less than 60% barely changed from 5% in 2020 to 6% in 2022.

POLICY COUNT RENEWAL RATE



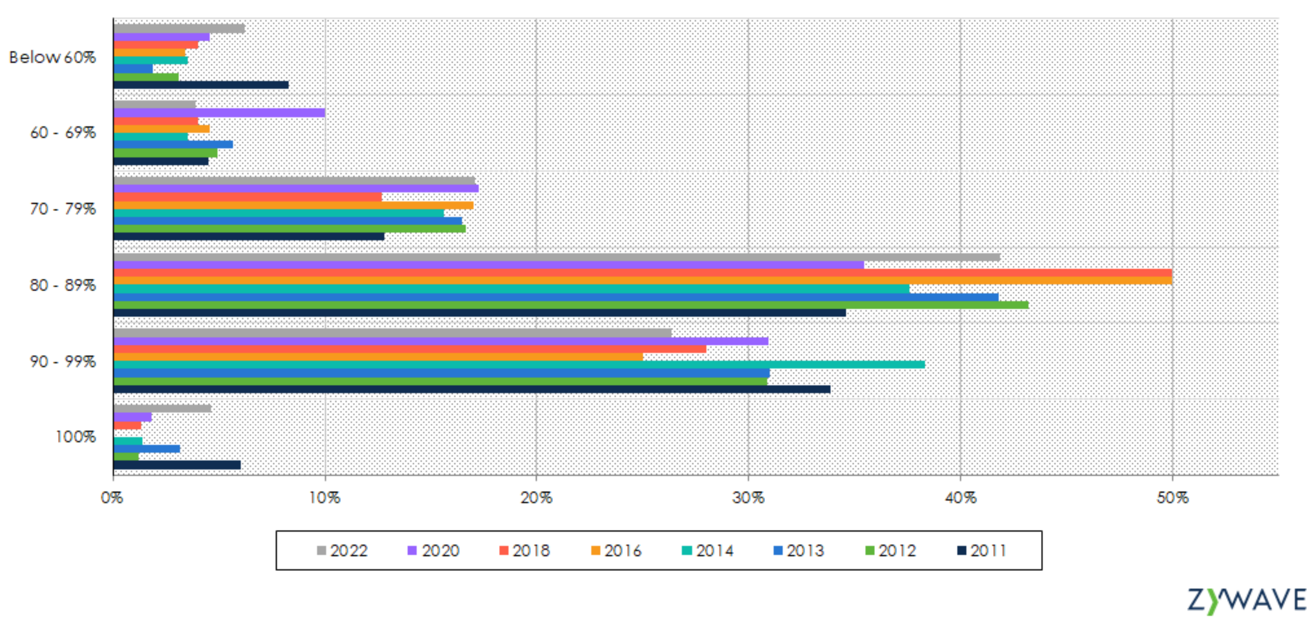
After seeing a marginal decline from 84.5% in 2018 to 83% in 2020, the average renewal rate increased to 83.7% in 2022.

AVERAGE RENEWAL RATE BY YEAR



The trend of increasing percentage of administrators reporting 100% renewal rates continued in 2022. Similarly, those reporting renewal rates of 80% to 89% also increased. It is in the 90% to 99% bracket that the survey saw a material decline in 2022. A marginal decline was also observed in the 70% to 70% bracket.

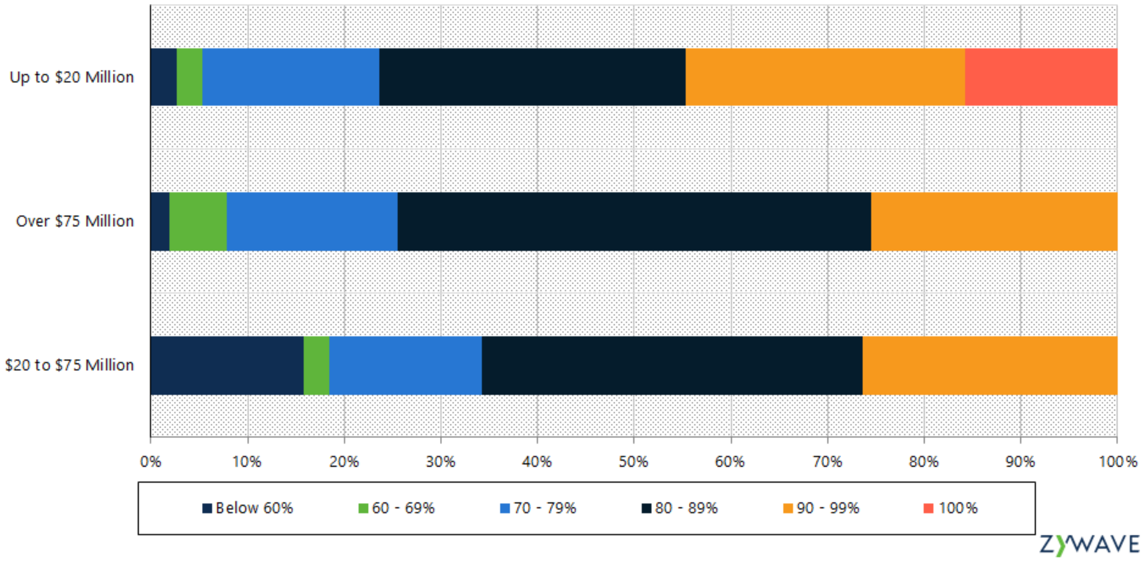
COMPARATIVE ANALYSIS OF RENEWAL RATES (2011-2022)



Consistent with the previous survey's results, smaller firms had the greatest proportion of programs with over 90% renewal rates. All administrators who reported a 100% renewal rate also came from that bracket.

When discussing the distinctions between smaller and larger administrators, Pesce suggested that one reason smaller organizations may have maintained greater renewal rates over time was their stronger ties to each individual program. “When you get larger, you’re just not as intimately familiar with every single account—where every single account matters and you’re directly tied into every single account. As I grew, I certainly started getting more removed from all except the largest accounts. I don’t know if it’s just a scale issue, that as MGAs get bigger, it’s hard to put your finger on the pulse of every single transaction. Maybe retention slips a little bit because you’re not as down into the weeds of every account from a leadership perspective.”

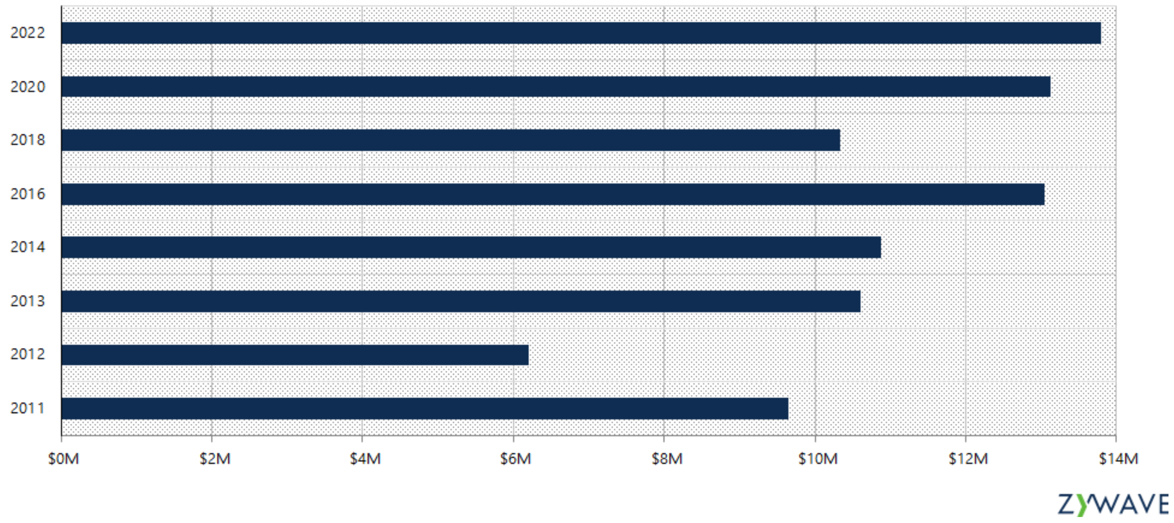
RENEWAL RATE BY SIZE OF ADMINISTRATOR



Average revenue increased in 2022.

After a 27% increase from $10.3 million in 2018 to $13.1 million in 2020, average respondent revenue increased another 5% to $13.8 million in 2020.

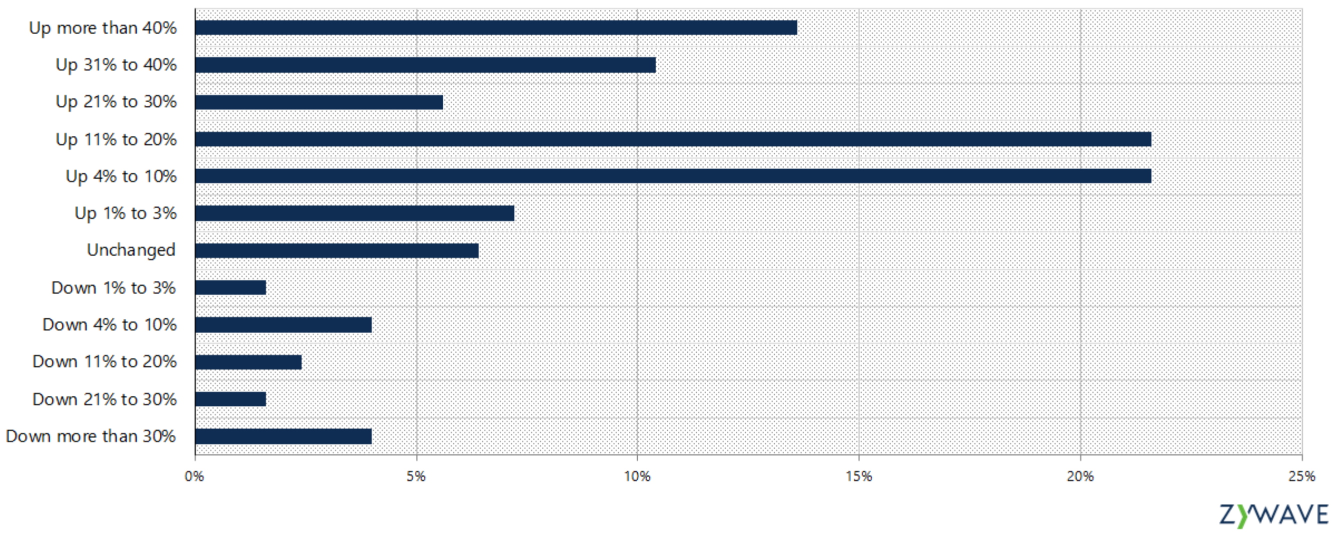
AVERAGE REVENUE BY YEAR



A significantly higher percentage of administrators reported increases in gross program administration revenues in 2022.

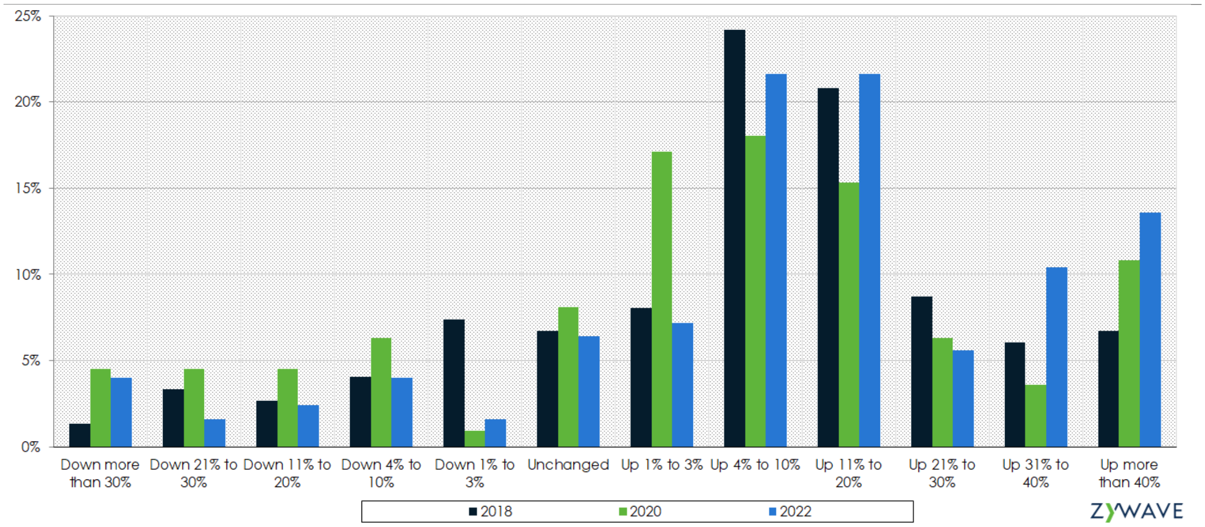
After dropping from 77% in 2019 and 71% in 2020, the percentage of respondents who reported increases in program administration revenues increased to 80% in 2022. Among administrators polled, a total of 14% reported declines in 2022, significantly lower than 21% in 2020 and 19% in 2018. Those who reported no changes also dropped from 8% in 2020 to 6% in 2022.

BY WHAT PERCENTAGE DID YOUR PROGRAM ADMINISTRATION REVENUES CHANGE IN 2022?



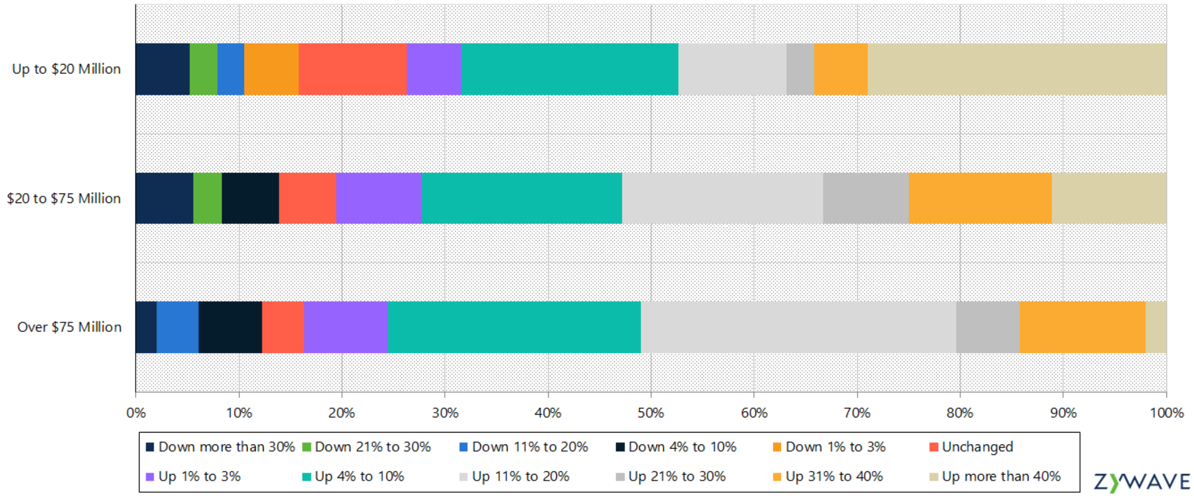
Of those who reported increases in 2022, 14% said program administration revenues rose by more than 40%—higher than the 11% who reported the same in 2020. Administrators who reported increases of 31% to 40% also went up from 4% in 2020 to 10% in 2022. Similarly, those reporting increases of 11% to 20% climbed from 15% to 22%. Likewise, those who saw increases of 4% to 10% rose from 18% to 22%.

BY WHAT PERCENTAGE DID YOUR PROGRAM ADMINISTRATION REVENUES CHANGE IN 2018 VS 2020 VS 2022?



Reversing the trend in previous years when smaller firms or those with premiums administered of less than $20 million reported the highest proportion of revenue increases, the 2021 poll saw a bigger percentage of larger firms posting revenue increases.

PROGRAM ADMINISTRATORS REVENUE CHANGE BY SIZE OF ADMINISTRATOR

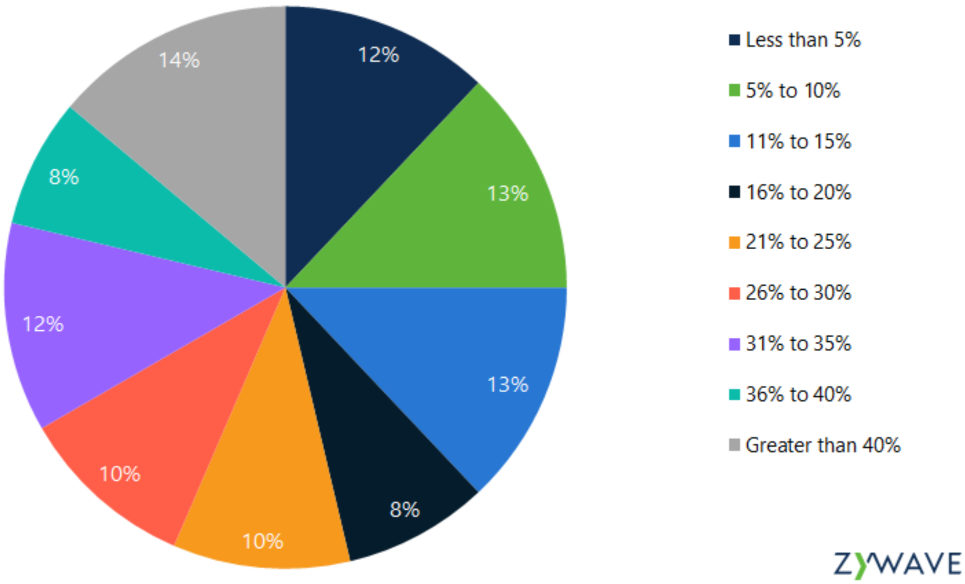


Profit margins were slightly higher.

Administrators were surveyed regarding their average program administration profit margins, calculated as net income as a percentage of revenue after subtracting agents' commissions. Approximately 12% of administrators reported profit margins of less than 5%, while 13% fell within the 5% to 10% range. Another 13% reported profit margins between 11% and 15%, with 8% falling within the 16% to 20% category and 10% in the 21% to 25% bracket. Ten percent of respondents reported profit margins ranging from 26% to 30%, 12% had margins from 31% to 35%, and 8% achieved margins of 36% to 40%. Lastly, 14% of administrators reported profit margins exceeding 40%, indicating a notable presence of highly profitable programs within the surveyed group.

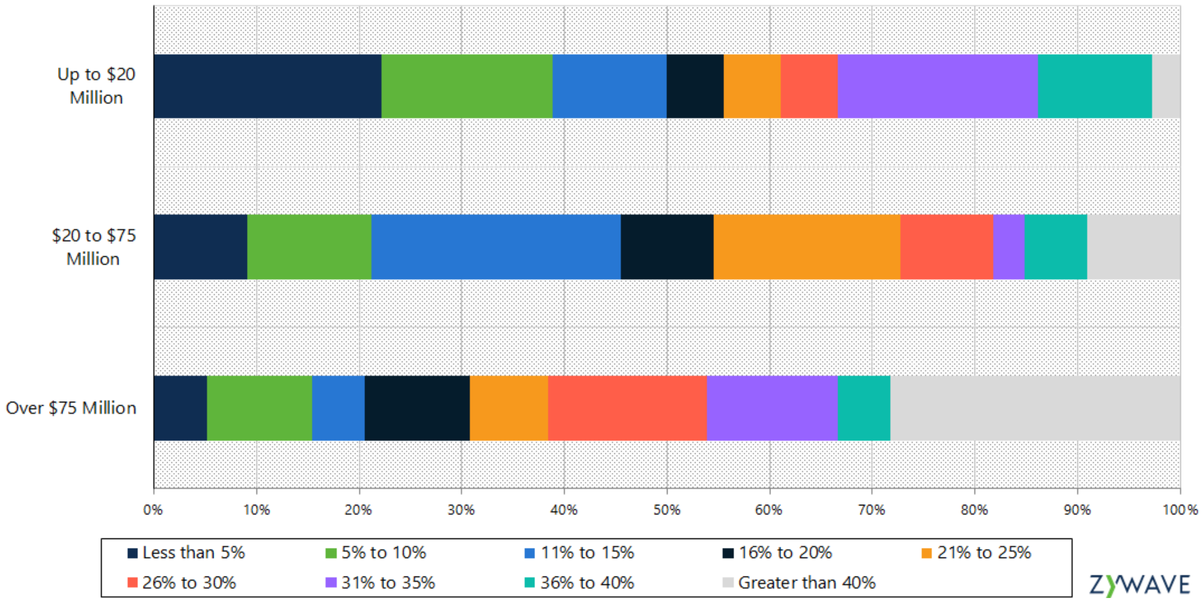
Over the years, there has been a gradual increase in administrators reporting profit margins exceeding 26%. In 2018, 31% of administrators fell within this category, which rose to 41% in 2020. This trend continued in 2022, with a slight increase to 43%.

PROGRAM ADMINISTRATION PROFIT MARGIN



Unlike the previous survey, when mid-sized firms or those with premiums administered of between $20 million and $75 million registered the highest profit margin among the three premium groups, the 2022 poll saw the larger administrators posting the highest profit margins. Commenting on the distinctly higher profit margins for larger agencies, Pesce said, "Larger firms are more profitable. That makes all the sense in the world to me."

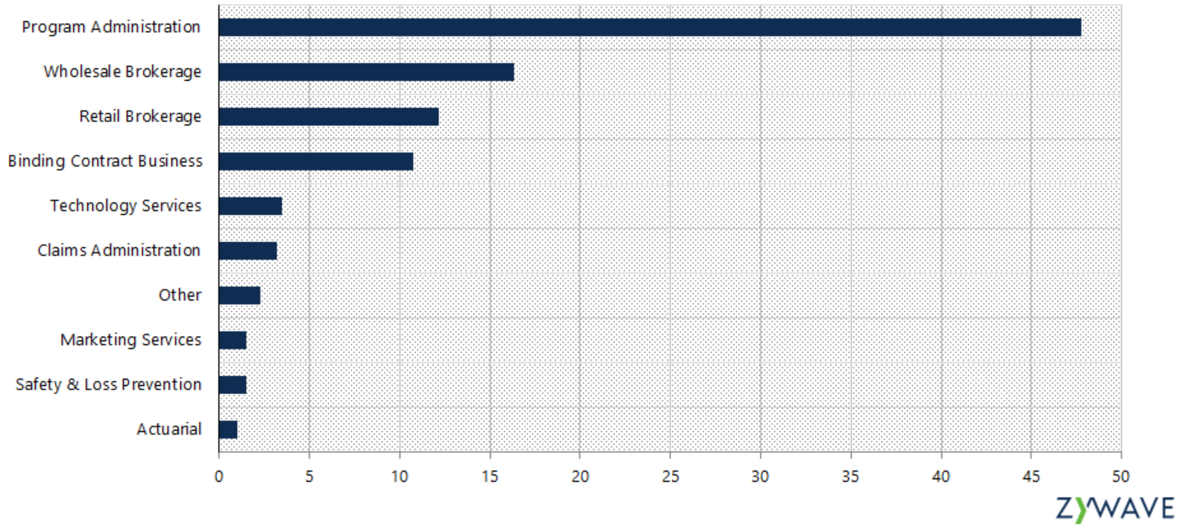
PROGRAM ADMINISTRATION PROFIT MARGIN BY SIZE OF ADMINISTRATOR



Revenues and Expenses

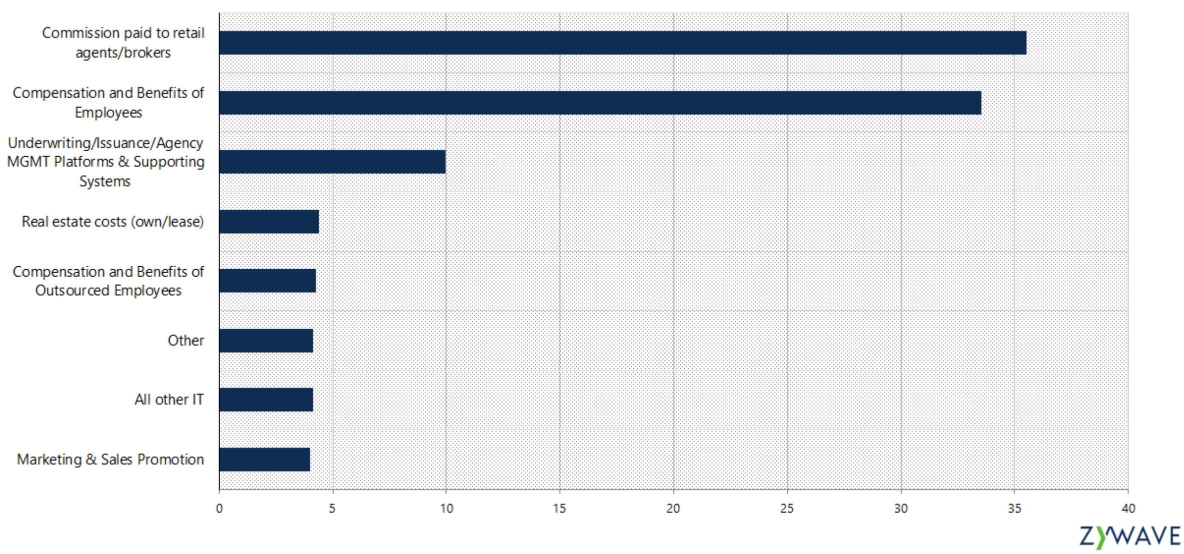
Similar to the results of previous surveys, the largest segment in terms of the approximate split of overall revenues was program administration, followed by wholesale brokerage and retail brokerage. This has been a consistent finding since the survey started in 2011. However, it is noticeable that the percentage for program administration declined from 76% in 2020 to 48% in 2022, while wholesale brokerage increased from 10% to 16% and retail brokerage from 5% to 12%. Binding contract business also climbed from 3% to 11%.

APPROXIMATE SPLIT OF OVERALL GROSS REVENUES IN 2022 (IN %)



Commission paid to retail agents/brokers remained the largest segment of the approximate split of overall expenses, but the percentage of administrators reporting it went down from 41% to 36%. Compensation and benefits was the second largest segment at 34%, unchanged from the previous poll. A far third was underwriting/issuance/agency management platforms and supporting systems at 10%.

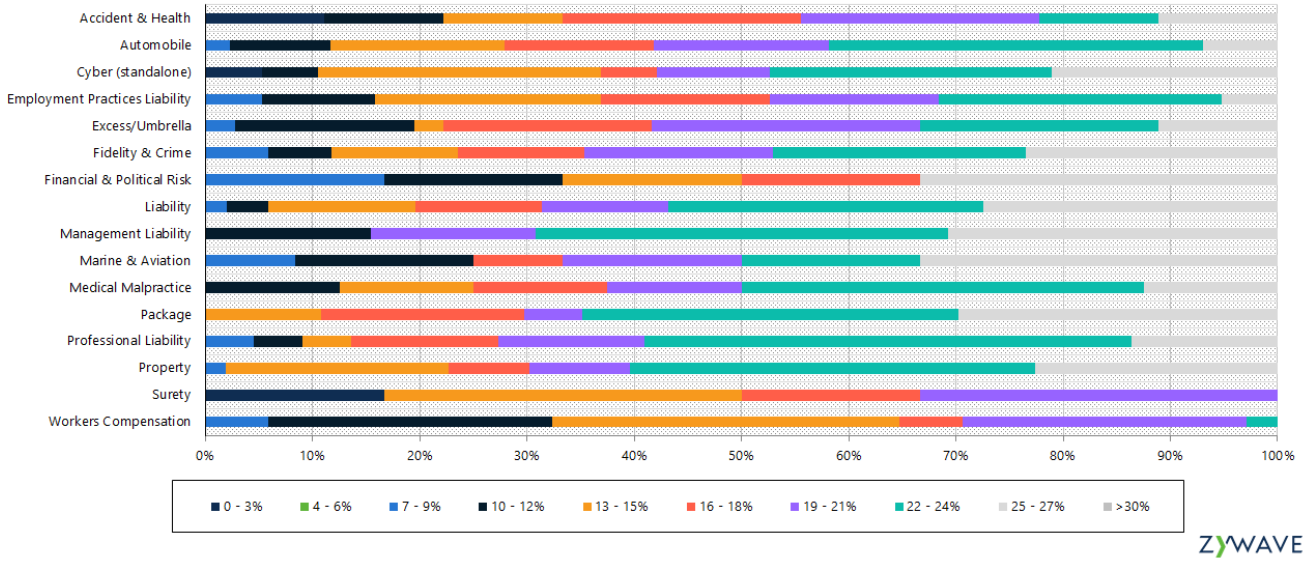
APPROXIMATE SPLIT OF OVERALL GROSS EXPENSES IN 2022 (IN %)



Average Commission

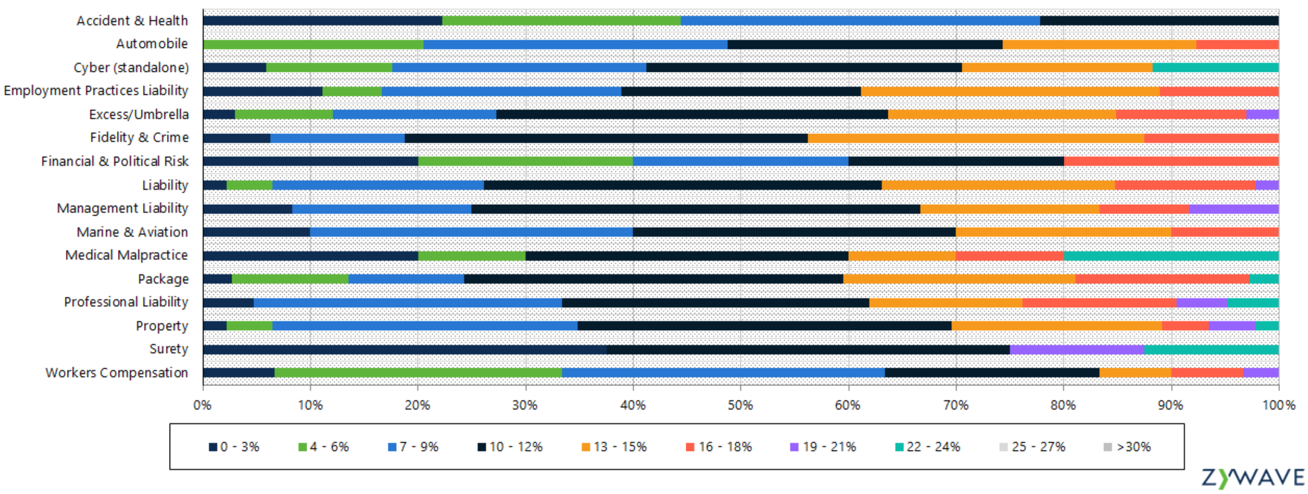
For the 2023 poll, the TMPAA and Zywave also looked into the average commission across 16 lines of business. Survey results show that, as with the previous poll, management liability had the highest average gross commissions as a percentage of premiums. Yet, unlike in the 2020 poll, when cyber and excess/umbrella came next, property, liability and package are the runners-up this time. Liability was reported to have one of the lowest commissions in the previous poll. This time, workers' compensation was reported to have the lowest commission.

AVERAGE GROSS COMMISSION (% OF PREMIUM)



In terms of average net commission as a percentage of premium, the highest numbers were posted for surety, cyber and medical malpractice.

AVERAGE NET COMMISSION (% OF PREMIUM)

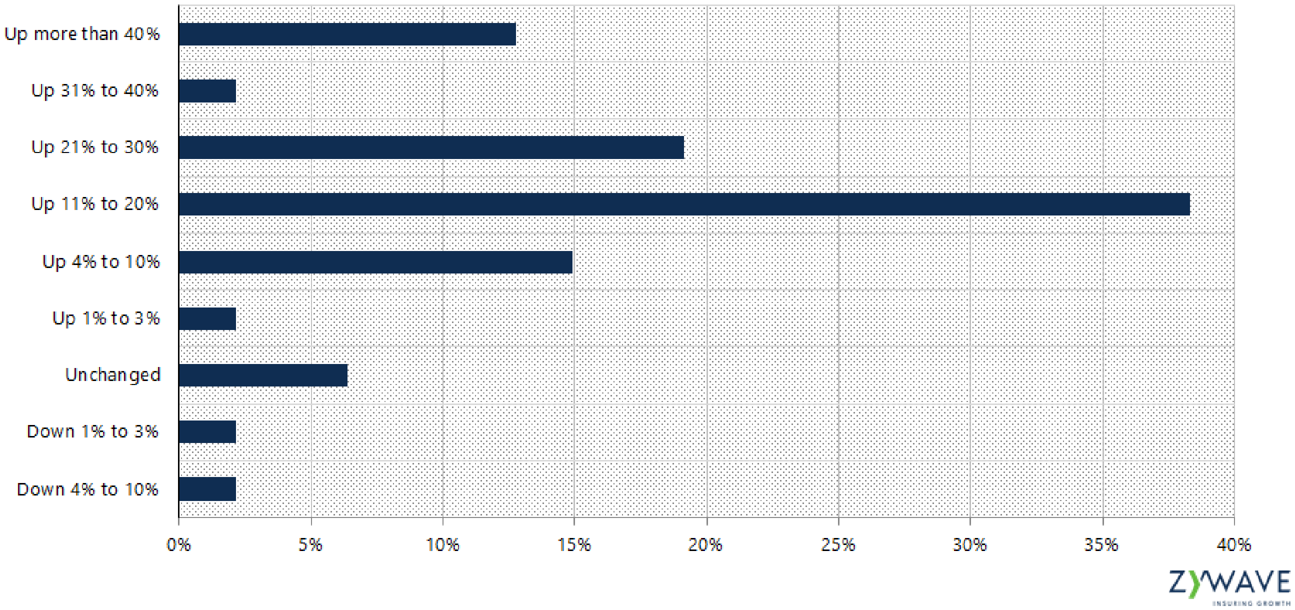


The percentage of carriers reporting increases in premiums also went up in 2022.

Eighty-nine percent of carriers surveyed reported increases in premiums written in 2022, a few percentages higher than 84% and 85% of carriers who reported the same in 2019 and 2020, respectively. This is also a few percentages higher than the 86% of administrators who reported premium increases.

Those who reported declines barely changed—5% in 2020 versus 4% in 2022. Six percent said premiums administered were unchanged in 2022. This compares to the 10% who did not see any changes in premiums administered in 2020.

BY WHAT PERCENTAGE DID YOUR PREMIUMS WRITTEN THROUGH PROGRAMS (GROSS WRITTEN) CHANGE IN 2022?



III. Program Business in a (Not So) Hard Market

Administrators' View on Share of Rate Increases

The TMPAA State of Program Business Study started tracking the share of rate increases and decreases in the 2017 survey. At the time, the survey found that liability, management liability, professional liability, excess/umbrella, and workers' compensation showed an almost 50-50 share between increases and decreases. Conversely, a greater proportion of respondents reported declining rates for fidelity, surety and crime; marine and aviation; property; financial and political risk; medical malpractice; and package. Automobile liability insurance was the exception at the time, with significant reported price hikes. Auto was also mentioned by several respondents as one of the greatest challenges faced by program business.

Following a decade of soft market conditions, the insurance industry started witnessing hard market conditions in 2019. TMPAA program administrators reported rate increases across most lines, especially in automobile, marine and aviation, property, excess/umbrella, and financial and political risk. Workers' compensation stood out as the only line of business that posted more declines.

As the hard market persisted in 2020, administrators who responded to the program business survey continued to see a greater share of increases for all lines of business except workers' compensation.

In 2022, pricing increases moderated owing to slower rates of increase and some decreases. Administrators still reported increases across many lines but at a slower pace.

The percentage of administrators who reported increases in rates rose for liability (7%), property (6%), package (4%), professional liability (4%) and workers' compensation (4%).

While the percentage of administrators reporting increases for workers' compensation increased in 2022, it still stood out because rate decreases far outweighed increases (72% versus 28%).

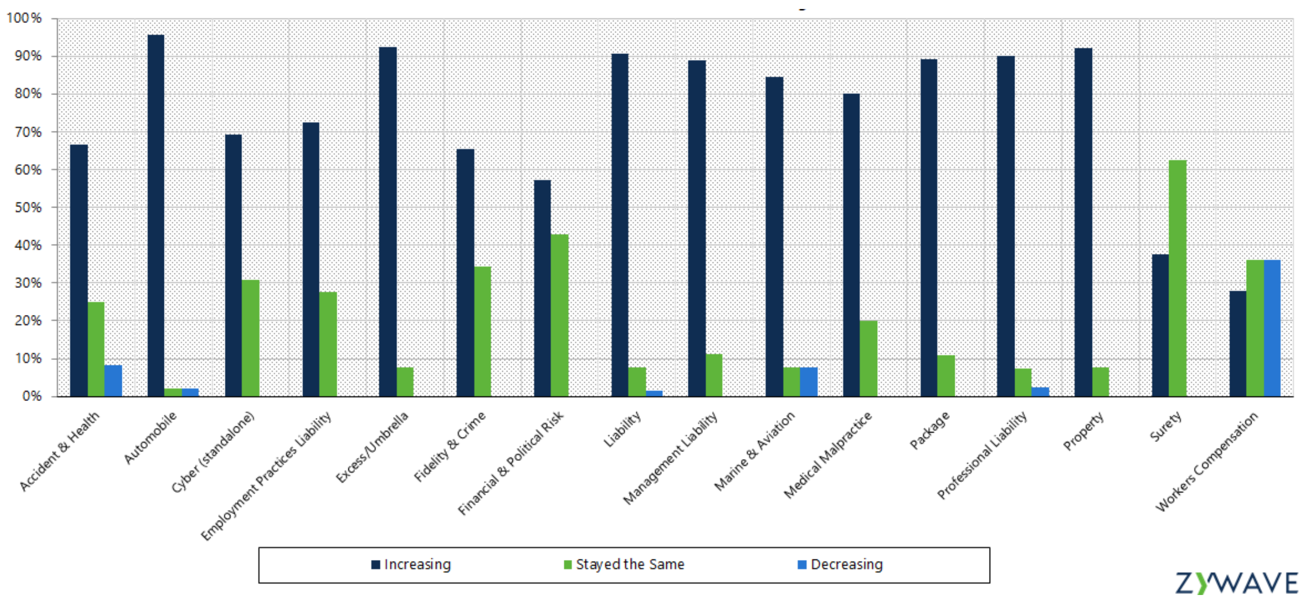
"As the hardening market has impacted the majority of liability lines recently, the importance [of] a quality and competitive workers' compensation product provided increased opportunities for us as program administrators to look at expansion and diversification in industries served," one survey participant commented.

Surety, a newly added line of business in the study, posted the second lowest percentage of administrators reporting increases at 38%.

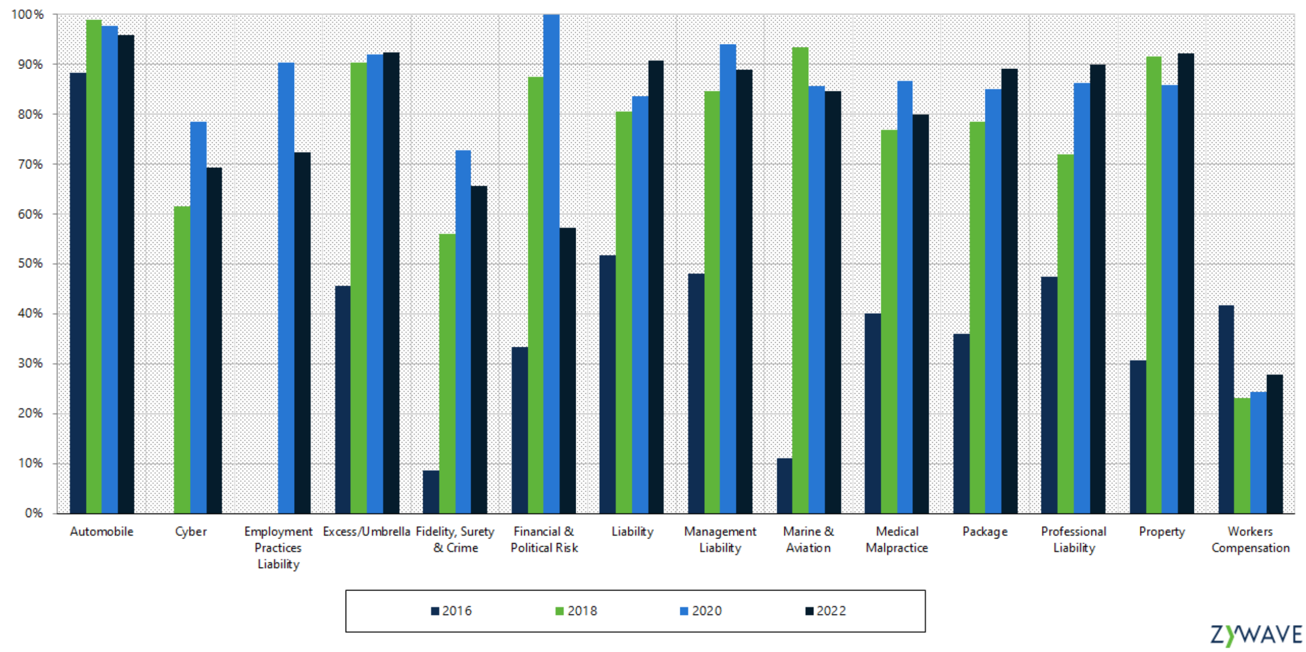
On the other hand, there was a sharp decline in administrators reporting increases in rates for financial and political risk (from 100% in 2020 to 57% in 2022) and employment practice liability (from 90% in 2020 to 72% in 2022). The percentage of administrators who reported increases also dropped for cyber; fidelity, surety and crime; management liability; and medical malpractice.

The lines of business with the highest share of respondents reporting increasing premiums included automobile (96%), excess/umbrella (92%), liability (91%) and professional liability (90%).

ADMINISTRATORS: SHARE OF RATE INCREASES/DECREASES BY LINE OF BUSINESS (2022)



ADMINISTRATORS: COMPARATIVE ANALYSIS OF SHARE OF RATE INCREASES (2016 - 2022)



The survey's findings are largely in sync with Willis Towers Watson's (WTW) Commercial Lines Insurance Pricing Survey, which showed that U.S. commercial insurance grew by an average of 4.8% in the fourth quarter (Q4) of 2022—down from 5.2% in the third quarter (Q3) of 2022. According to WTW, "Rates continued to harden across nearly all lines of coverage in the fourth quarter, however, at a slower pace."[6]

The WTW survey showed that data for nearly all lines of business indicated moderate to significant price increases in Q4 2022, except for workers' compensation and directors and officers (D&O) insurance.

The TMPAA State of Program Business Study's finding that the increase in cyber slowed from 78% in 2020 to 69% in 2022 also mirrors WTW's finding that cyber slowed down its price increase. Both surveys likewise noted significant increases in automobile and property.

Similarly, the Council of Insurance Agents & Brokers' (CIAB) Q4 2022 Commercial Property/Casualty Market Index showed moderation in premium increases in the commercial property and casualty (P&C) market. "Premiums increased for the 21st consecutive quarter in Q4 2022, with respondents reporting an average premium increase across all account sizes of 8%, down slightly from 8.1% in Q3 2022," reported the CIAB.[7]

The CIAB report singled out property as the line that did not experience moderation, while premiums increased by an average of 16.0% in Q4 2022, the highest increase of all lines of business, including cyber. Responses to the program business survey reflect this trend, with 92% of administrators reporting increases in property in 2022 compared to 86% in 2020.

Carriers' View on Share of Rate Increases

The TMPAA State of Program Business Study also looked into carrier respondents' share of rate increases.

Like their administrator counterparts, the carriers' data on cyber indicates moderation as the rate of increase declined from 86% in 2020 to 75% in 2022.

The slower rate of increase in management liability stated by carriers and administrators is consistent with the price decrease in D&O liability reported by WTW for Q4 2022.

Among carriers, the lines of business with the highest share of respondents reporting increasing premiums were financial and political risk (100%), marine and aviation (100%), property (97%), liability (97%), excess/umbrella (97%) and automobile (96%).

For administrators, automobile (96%), excess/umbrella (92%) and liability (91%) were also among the lines of business that had the highest share of respondents reporting increasing premiums.

Notable differences are in financial and political risk, which showed a shared decline for administrators but posted a significant increase among carriers. A similar trend is observed in employment practices liability.

For property, administrators saw the share of respondents posting rising rates increase, but carriers saw a marginal decline.

Workers' compensation also still stood out because it had a lower percentage of increases among carriers.

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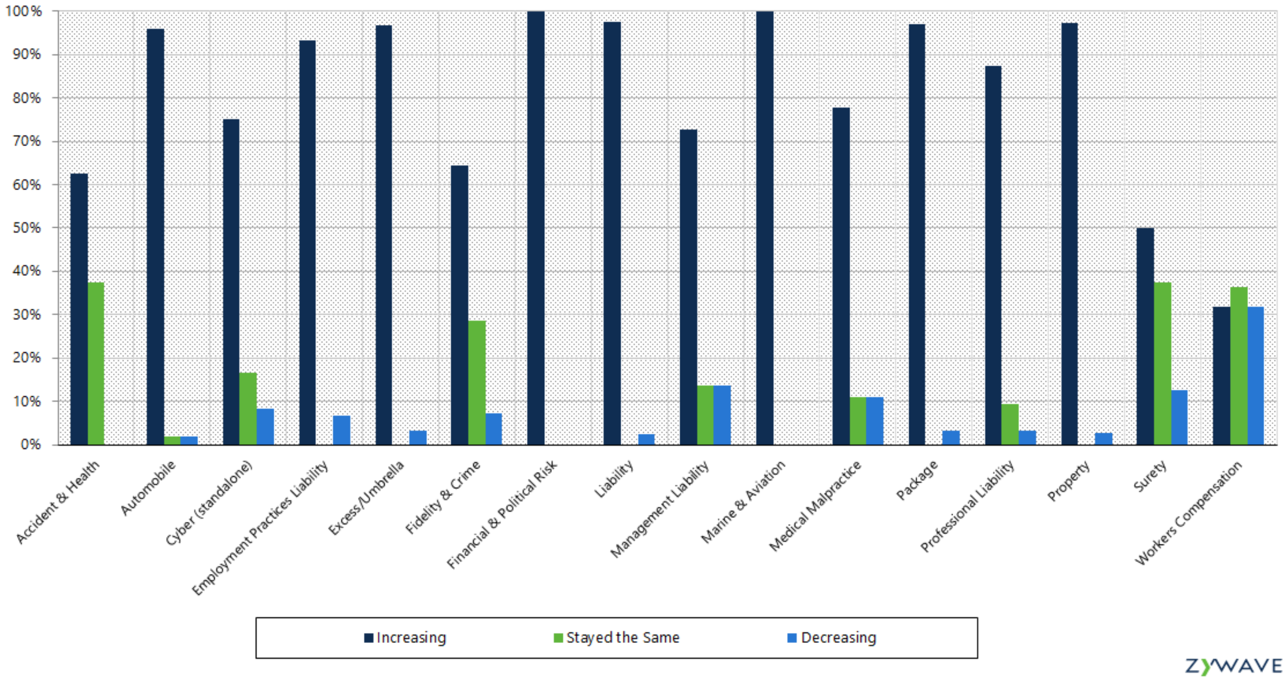
[6] WTW, U.S. commercial insurance rates continue to increase in the fourth quarter, albeit at a slower pace of 4.8%, March 13, 2023.
[7] Council of Insurance Agents & Brokers (CIAB), Council of Insurance Agents & Brokers (CIAB) Q4 2022 Commercial Property / Casualty Market Index, February 2023. https://www.ciab.com/resources/news-release-q4-2022-p-c-market-survey-results-are-in/

CARRIERS: SHARE OF RATE INCREASES/DECREASES BY LINE OF BUSINESS (2022)



Commenting on rate increases, Colis said, "I haven't seen anyone in that business today (management liability) that is getting any rate increases. We're giving away rates. We're giving away renewals. So there are no rate increases going on. There is a true soft, soft market right now, at least from our vantage point."

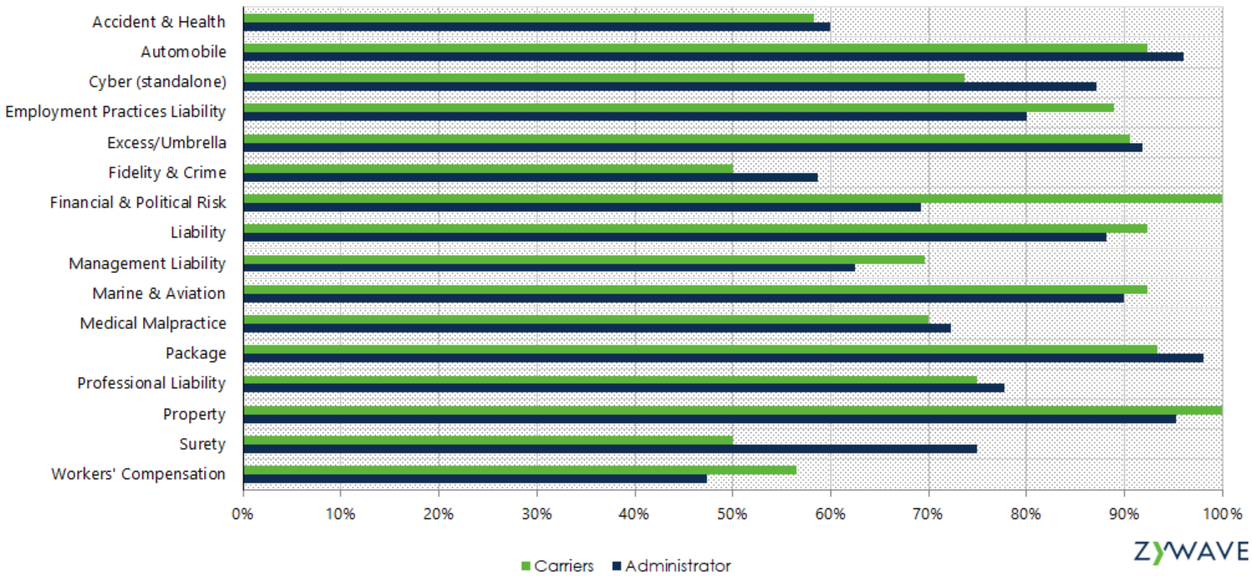
Offering his perspective, Pesce said, "I really think that a lot of people answered on lines that they don't represent and thought that they must be in a hard market because we're in a hard market."

How Do Administrators and Carriers Expect Rates to Change Over the Next Two Years?

Administrators and carriers are largely in sync when it comes to rate expectations in the next two years. The majority of respondents from both groups expect rates to increase for automobile, excess/umbrella, liability, marine and aviation, package, and property.

Some differences were noted in cyber, surety and crime, and fidelity, where a greater percentage of administrators are expecting increases in the near future. On the other hand, more carriers are expecting increases in financial and political risk and workers' compensation.

COMPARATIVE ANALYSIS: HOW DO YOU EXPECT RATES WILL CHANGE OVER THE NEXT TWO YEARS?



What Are Carriers' Plans Over the Next 12 Months for 16 Lines of Business?

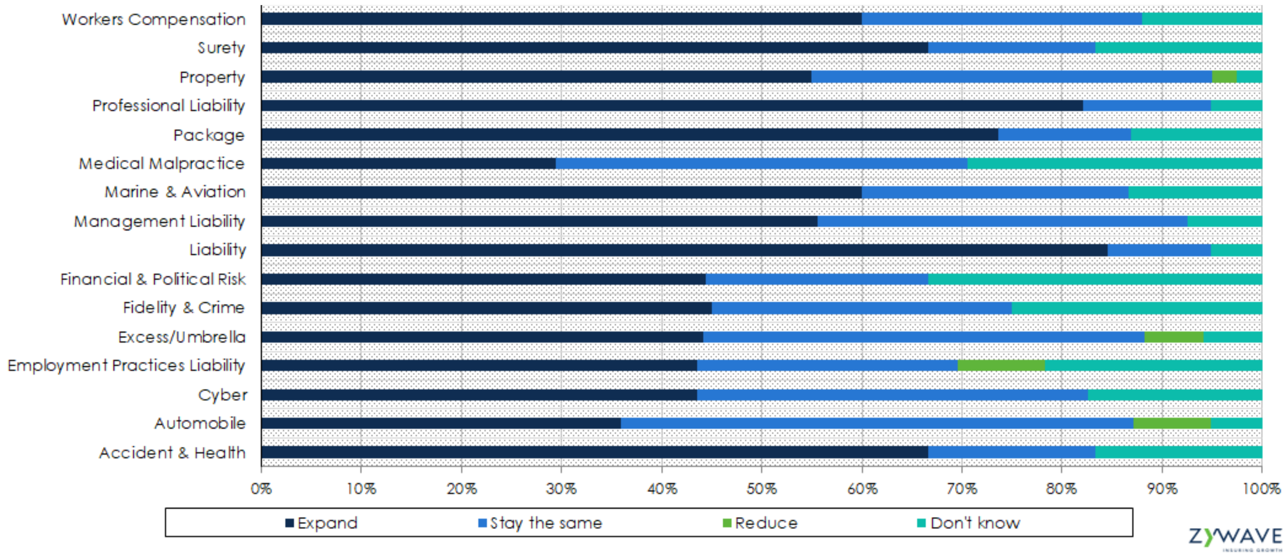
It was noticeable in the 2022 poll responses that carriers are not as eager to expand in many lines of business as they were in the 2020 survey.

This is particularly apparent in property, where the percentage of those who had plans to expand dropped from 77% in 2020 to 55% in 2022. Further, package declined from 95% to 74%; liability dropped from 100% to 85%; medical malpractice decreased from 44% to 29%; management liability dropped from 70% to 56%; fidelity, surety and crime decreased from 57% to 45%; and excess/umbrella fell from 55% to 44%.

There's also a noticeable increase in carriers who plan to stay the same for certain lines of business (automobile, excess/umbrella; fidelity, surety and crime; financial and political risk; liability; management liability; marine and aviation; medical malpractice; package; and professional liability).

There also appears to be some level of uncertainty in fidelity, surety and crime; marine and aviation; and workers' compensation.

PLANS OVER THE NEXT 12 MONTHS FOR 16 LINES OF BUSINESS



IV. Impact of the Evolving Market

The TMPAA and Zywave asked administrators and carriers about their views on the impact of the hardening insurance market on programs. A comparison of their responses in terms of pricing, capacity, reinsurance availability, and terms and conditions shows that the two groups' views are fairly aligned across all aspects.

As with the previous survey, the majority of administrators and carriers reported increases in pricing, though carriers seem more bullish on pricing than their administrator counterparts. Nearly half of the respondents from both survey groups saw slight price increases, but a greater percentage of carriers (46%) saw a significant increase in pricing than administrators (35%).

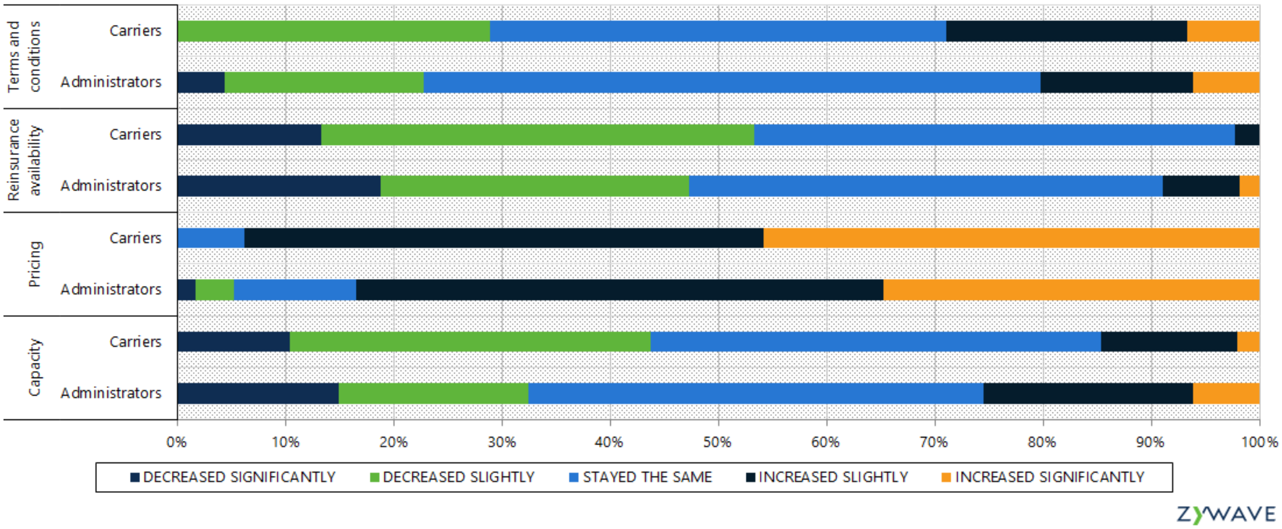
A look at capacity shows that 40% of administrators and carriers reported that capacity stayed the same. Unlike in the previous poll, when a greater percentage of carriers saw increases, more of them reported declines in the 2023 survey (43%). On the other hand, while more administrators posted declines in the previous poll, a greater percentage reported increases this time (25%).

On terms and conditions, more than half (57%) of administrators surveyed said it stayed the same, 22% reported declines, and 20% reported increases. Among carriers, 42% said it stayed the same, 29% posted declines and 20% reported increases.

Views of administrators and carriers are in sync when it comes to reinsurance availability, as both groups reported a different picture of reinsurance availability between 2020 and 2022.

In 2020, half of both groups said availability remained the same. This shifted in 2022 when both administrators and carriers reported declines —53% of carriers and 48% of administrators. In both groups, 44% responded that availability was unchanged. Nine percent of administrators and two percent of carriers reported increases.

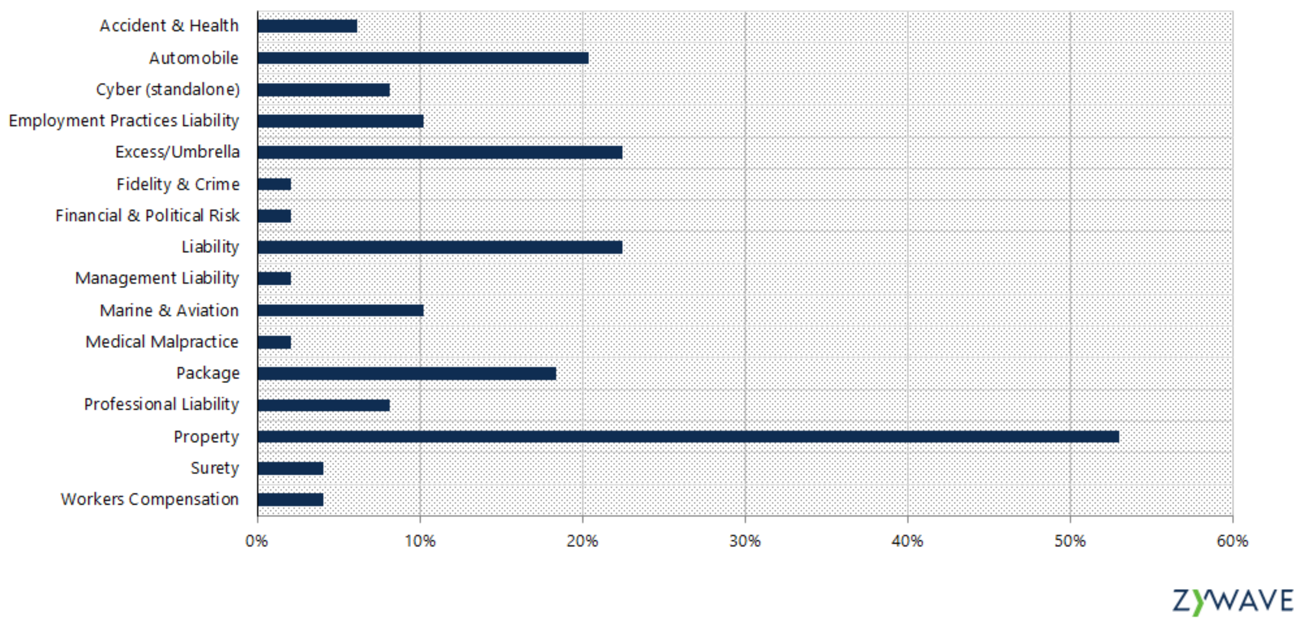
COMPARATIVE ANALYSIS: IMPACT OF HARDENING INSURANCE MARKE T ON PROGRAMS



Administrator respondents were asked if their carriers were restricting their growth in any of the 16 lines of business featured in the study. Responses show that for most lines, there was no particular restriction.

There are, however, some exceptions, the most notable of which is property. More than half of those who reported restrictions said their carriers are restricting their growth in property. More than 20% of them also reported their growth being restricted in automobile, excess/umbrella, and liability, while almost 20% reported restrictions in package.

IS YOUR CARRIER RESTRICTING YOUR GROWTH (I.E., LIMITING CAPACITY) IN ANY OF THE FOLLOWING LINES OF BUSINESS?



V. Program Changes, Plans and Strategies

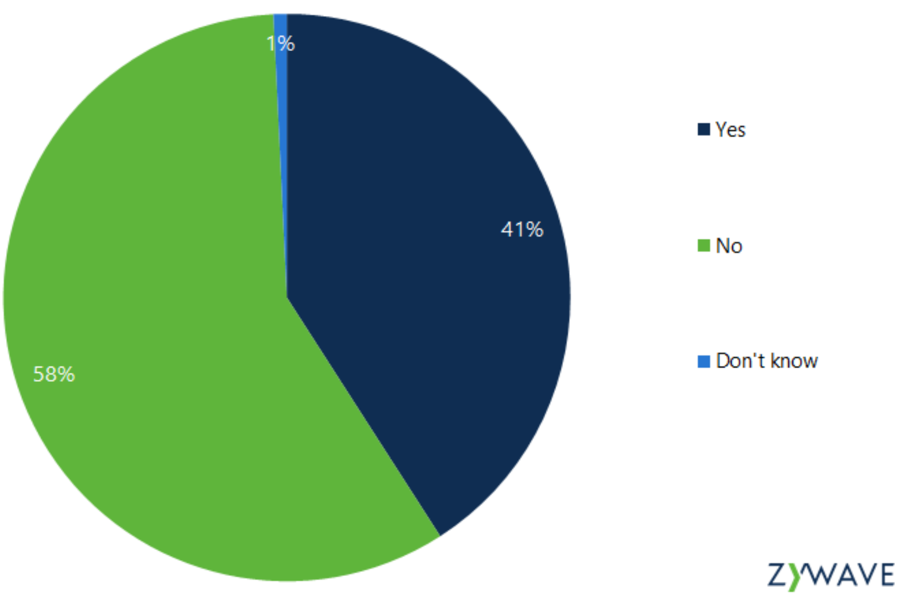
Change in Program Carrier

One of the cornerstones of successful programs is the relationship between administrators and carriers. According to previous surveys, when choosing an insurance company to work with, administrators take into account a number of factors, including the carrier's flexibility of underwriting guidelines, underwriting appetite for the program, the scope of underwriting authority, the history of supporting programs long-term, and the responsiveness to referrals outside of underwriting guidelines, as well as claims management reputation.

The TMPAA and Zywave polled administrators about their views on replacing their program carriers. *Did they change their program carrier in the past three years? What prompted them to change their carriers? Do they plan to change their carriers in the near future?*

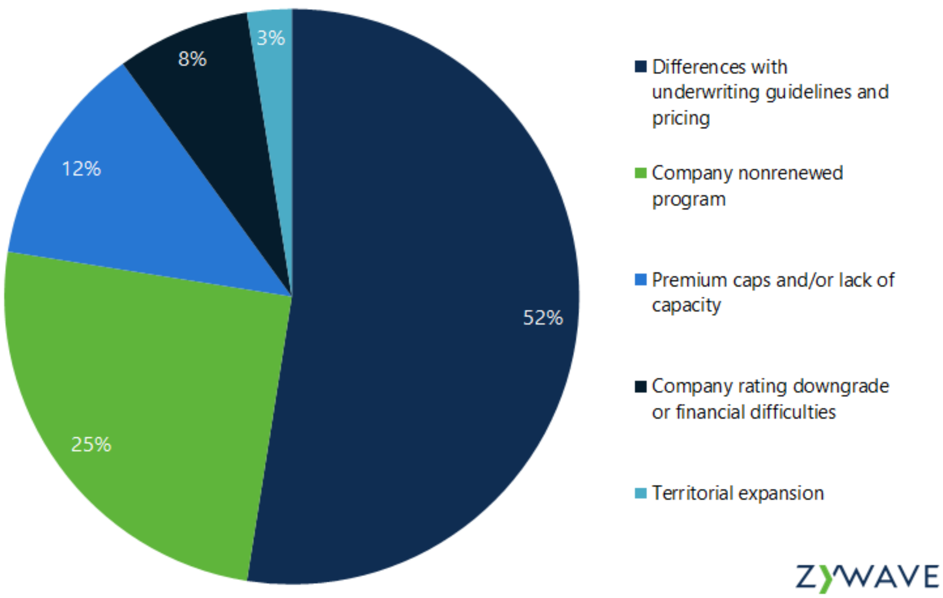
Results show that 41% of program administrators changed their program carriers in the past three years—a slight increase from the 37% who said they changed carriers in 2020 and the same as the percentage recorded in 2018.

HAVE YOU CHANGED YOUR PROGRAM CARRIER IN THE PAST THREE YEARS?



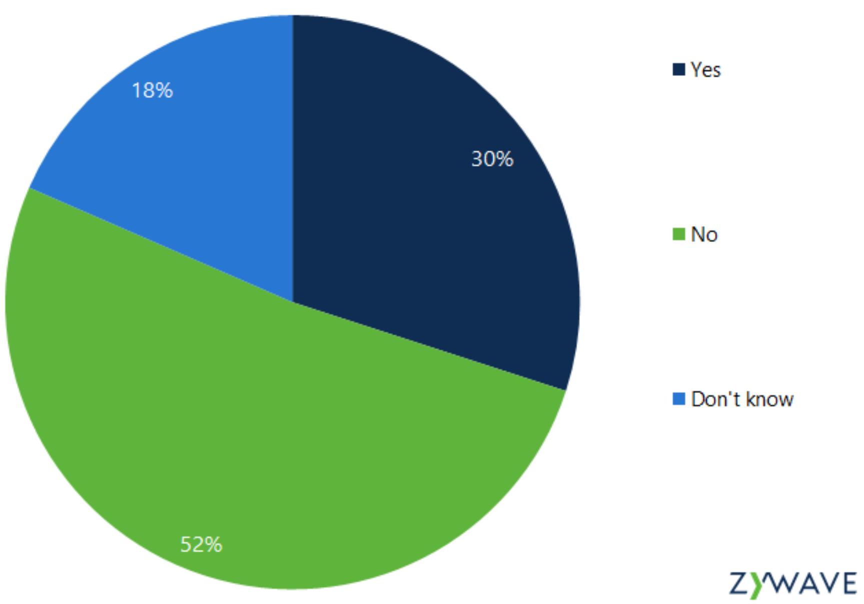
Differences with underwriting guidelines and pricing continue to be the primary cause for program administrators to switch carriers. A fourth of those polled said the company nonrenewed the program. Twelve percent said premium caps and/or lack of capacity, while 8% pointed to company rating downgrades or financial difficulties. The remaining 3% cited territorial expansion as the reason why they changed carriers.

REASON FOR CHANGING CARRIERS IN THE PAST THREE YEARS



The percentage of administrators polled who said they do not plan to change program carriers in the next 12 months increased from 47% in 2020 to 52% in 2022, while those who said yes increased by one percentage point. Those who had no view on the topic fell from 24% to 18%.

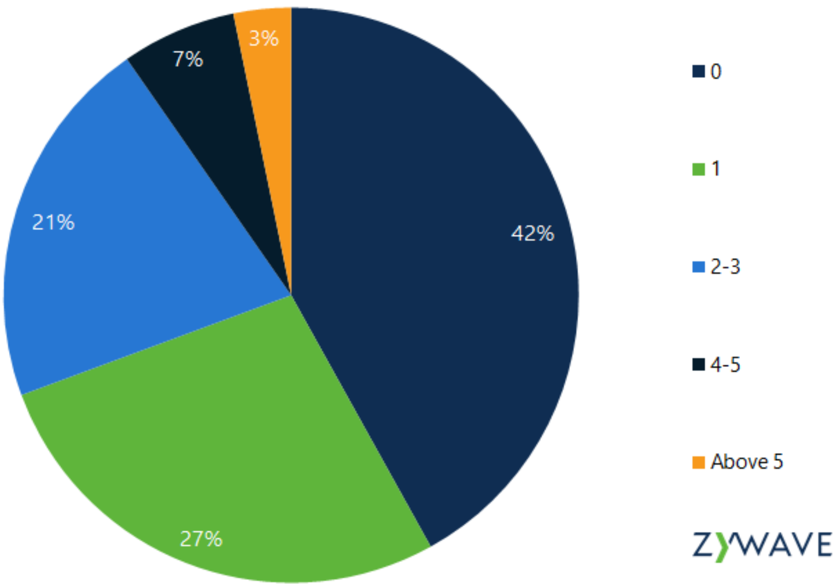
DO YOU PLAN ON CHANGING PROGRAM CARRIERS SOMETIME IN THE NEXT 12 MONTHS



New Programs Introduced

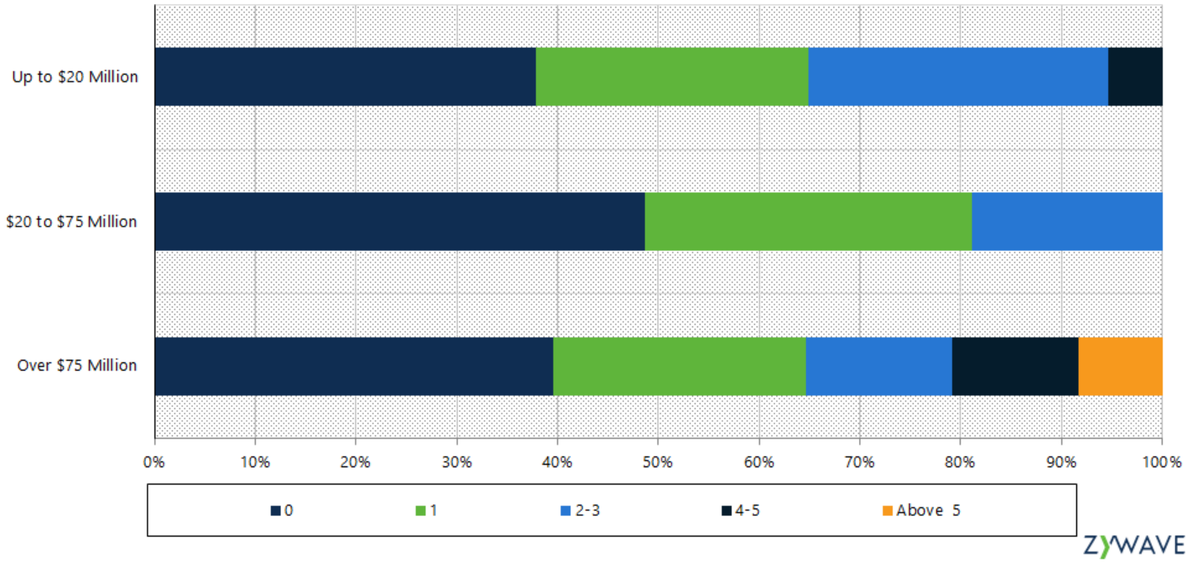
Forty-eight percent of administrators polled launched one to three new programs over the last two years. This compares to 50% in the previous survey. As with the previous poll, 7% introduced four to five programs. Only 3% launched more than five new programs. Forty-two percent of administrator respondents did not introduce any new programs in the past two years.

NUMBER OF NEW PROGRAMS INTRODUCED IN THE PAST 24 MONTHS



Not surprisingly, the larger administrators or those with premiums of more than $75 million administered introduced more programs than their smaller peers.

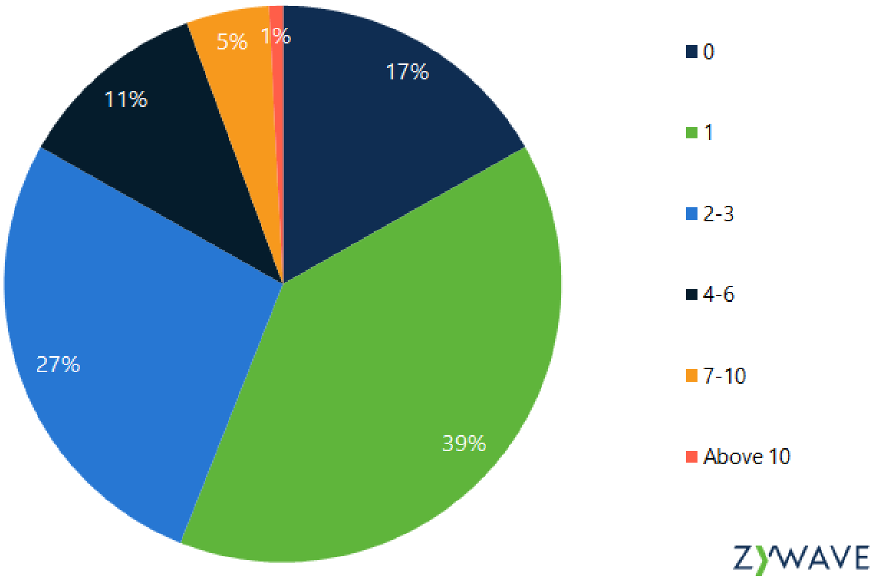
NEW PROGRAMS INTRODUCED BY PREMIUM SIZE



Plan to Introduce New Programs

Most of the respondents plan to launch new programs in the next 24 months. Sixty-six percent of the administrators surveyed said they plan to introduce one to three programs, 11% plan to onboard four to six programs, 5% plan are looking at introducing seven to 10 programs, and 1% plan to onboard more than 10 programs. As with the previous survey, only 17% of those polled have no plans to introduce new programs in the next 24 months.

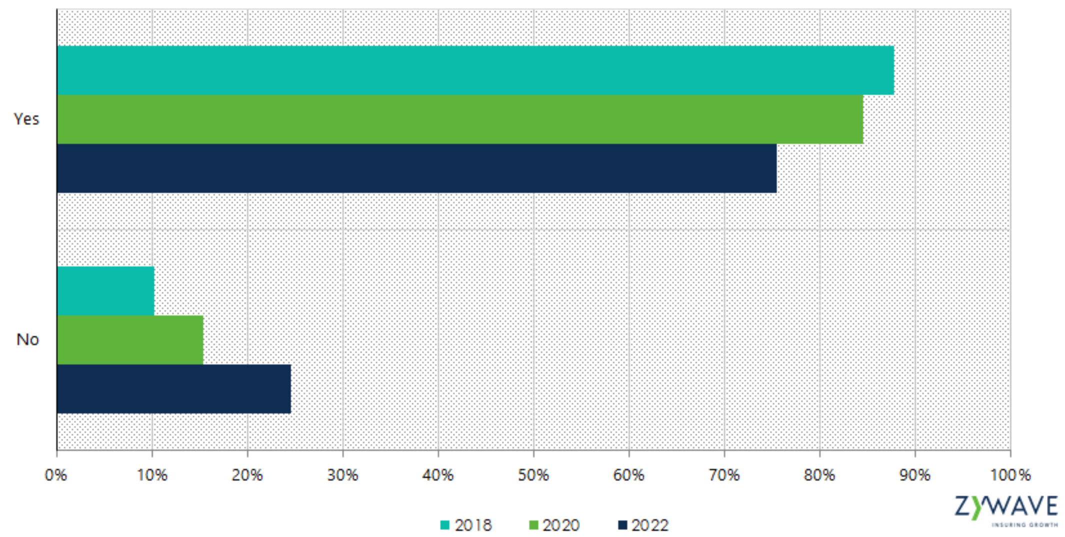
NUMBER OF NEW PROGRAMS PLANNED TO BE INTRODUCED IN THE NEXT 24 MONTHS



Programs Dropped in the Past Two Years

Seventy-six percent of carriers polled reported dropping programs in the past two years; this is lower than the 85% recorded in 2020 and 88% recorded in 2018.

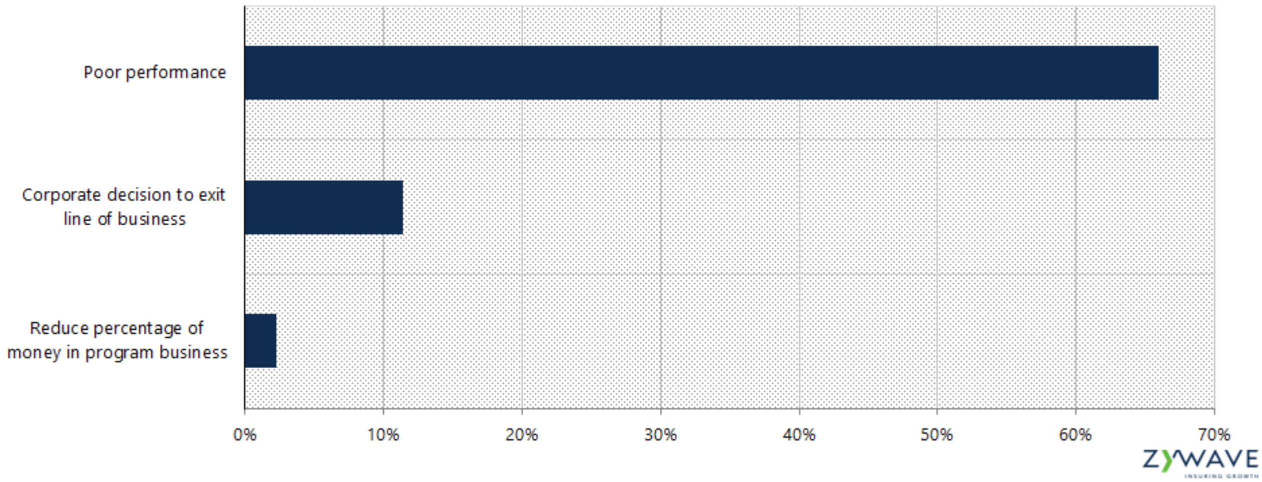
COMPARATIVE ANALYSIS OF DROPPED PROGRAMS



Among carriers who dropped programs, 66% attributed their action to the programs' poor performance. This compares to 82% of carriers who cited the same reason in the previous poll.

Eleven percent of the respondents pointed to the corporate decision to exit a line of business as the reason behind their decision to drop programs, while 2% said they dropped programs due to a reduced percentage of money in program business. The remaining 21% had no view on the topic.

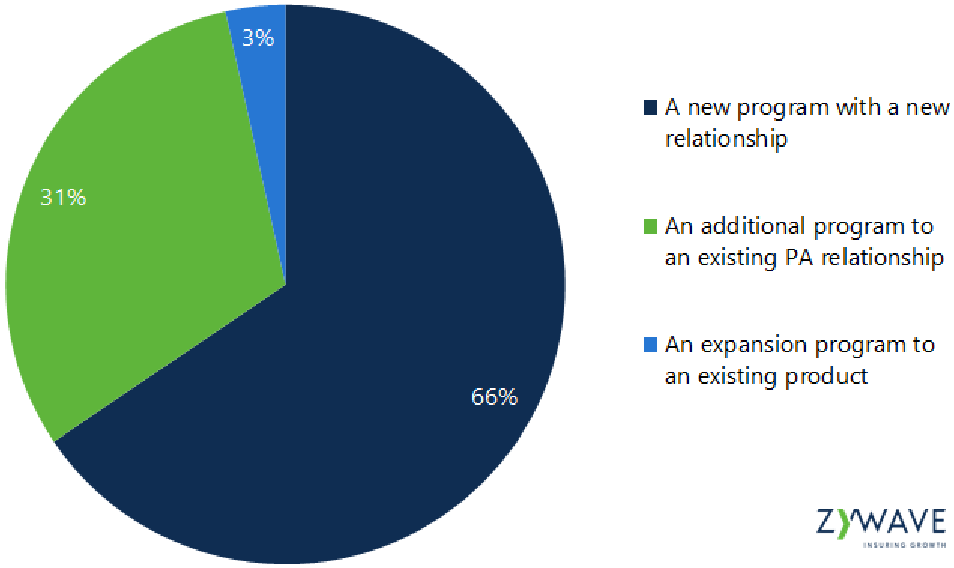
REASONS FOR DROPPING PROGRAMS IN THE PAST TWO YEARS



Program Strategy

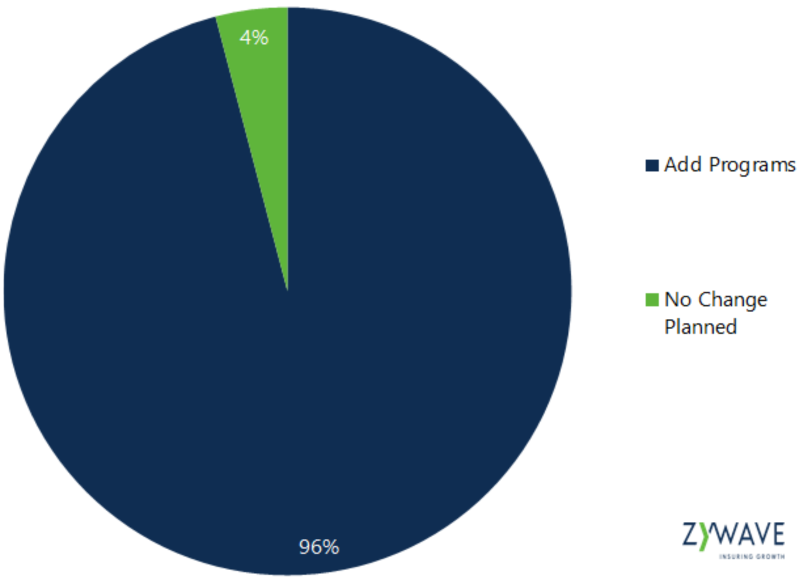
Among companies that have written a startup program in the last two years, 66% said it was a new program with a new relationship. Thirty-one percent described their startup as an additional program to an existing relationship, while the remaining 3% said their startups were expansion programs to an existing product.

IF YOUR COMPANY HAS WRITTEN A STARTUP PROGRAM IN THE LAST TWO YEARS, WHAT KIND WAS IT?



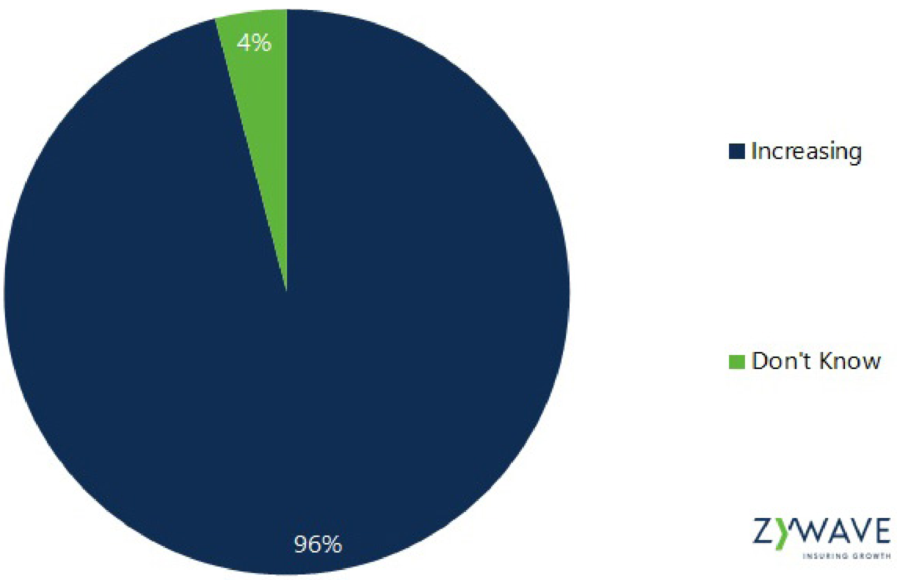
Consistent with the previous surveys, the majority of carriers (96%) polled plan to add new programs in the next three years. The plan to expand involves a combination of strategies, including partnering with new and existing administrators.

PROGRAM STRATEGY FOR THE NEXT THREE YEARS



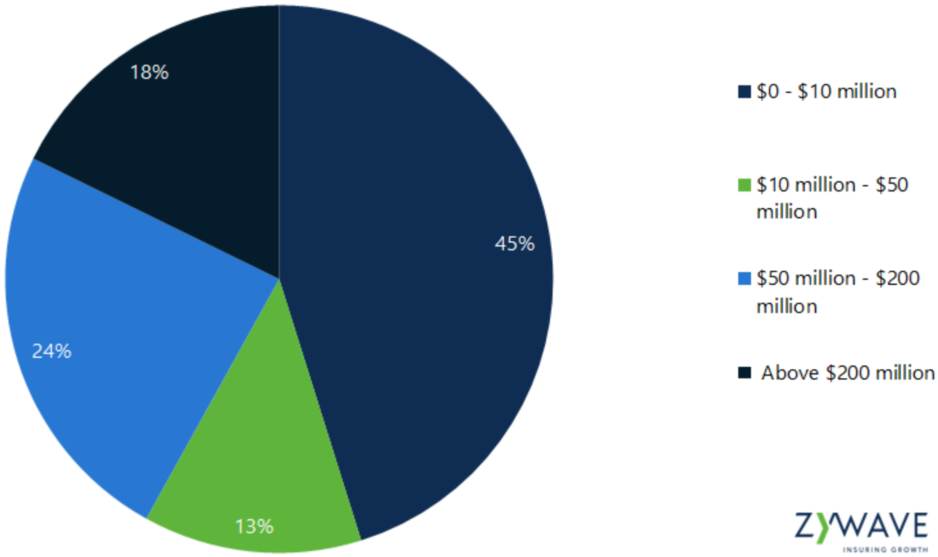
As with the previous survey, the majority of carrier respondents (96%) said they anticipate increasing the amount of premium written in the next three years.

DO YOU ANTICIPATE INCREASING OR DECREASING PREMIUM WRITTEN IN THE NEXT THREE YEARS?



Asked about the rough amount by which they anticipate increasing or decreasing their written premiums in the next three years, 13% of the carriers said $10 million to $50 million. This is significantly lower than the 41% recorded in 2020. Forty-five percent said $0 to $10 million, up a few percentage points from 41% in 2020. Those who said $50 million to $20 million remained at 24%, while those who reported more than $200 million declined from 26% in 2020 to 18% in 2022.

WHAT IS THE ROUGH AMOUNT BY WHICH YOU ANTICIPATE INCREASING OR DECREASING YOUR WRITTEN PREMIUMS IN THE NEXT THREE YEARS?



VI. A Look at Risk-taking in Program Business

Program administrators' capacity to embrace innovation and introduce new programs to address emerging risks is recognized as one of the historic drivers of growth in the program space. However, the successful introduction of new programs also depends on the risk appetite of carriers.

A major stumbling block identified in previous surveys has been the reluctance of carriers to write new program business. Several administrators polled have pointed to the difficulty of working through the existing group of traditional carriers and finding those with the appropriate risk appetite that would would consider taking on new programs.

> *According to one administrator, "By introducing new approaches to structuring the risk-taking relationships, the industry has expanded the number of options available to create new programs."*

According to one administrator, "By introducing new approaches to structuring the risk-taking relationships, the industry has expanded the number of options available to create new programs."

One such approach is the fronting model, which is defined by the International Risk Management Institute as "the use of a licensed, admitted insurer to issue an insurance policy on behalf of a self-insured organization or captive insurer without the intention of transferring any of the risk."

Although fronting is not new, the risk management technique has seen a resurgence in recent years as more program administrators started exploring fronted-carrier relationships. In the previous poll, administrators who have turned to fronting, participatory fronting or alternative capital markets for their program business underscored the technique's flexibility, which gives them the potential to have more control over the underwriting and administration of their programs.

For the 2023 study, the TMPAA and Zywave developed a set of questions aimed at assessing the prevalence of these new options.

To Front or Not to Front: Fronting and Hybrid Fronting in the Program Space

Fronting by the Numbers

Data from ALIRT Insurance Research shows that as of June 2023, there are 26 fronting insurance groups in the United States. It is important to note that these are not all pure fronting companies. Some are lead members of pools that partially reinsure in the fronted business.

A June 2023 report from AM Best attributed the proliferation of fronting firms to "changing market conditions and growing interest from capital providers." In the report, titled Hybrid Model Provides New Opportunities for Fronting Carriers, the global credit agency tracked the growth of 19 AM Best-rated U.S. fronting companies, including State National Group, Clear Blue Insurance Group, Trisura Group, Accredited Surety & Casualty, Spinnaker Insurance Company, Transverse Insurance Group, Accredited Specialty Insurance Company, Palomar Specialty Insurance Company, Accelerant Specialty Insurance Company and Incline Insurance Group.[8]

In 2020, AM Best tracked $4,814 million in direct premiums written (DPW) from the 19 fronting firms. By 2021, DPW had increased to $7,371 million. Between 2021 and 2022, the DPW of the 19 fronting firms saw a 43% increase to $10,564 million.

According to Conning, "fronting companies accounted for more than $12 billion in premium written by MGAs in 2022, a rise of 38% over the previous year. Approximately 15% of total MGA premium is now supported by fronting companies, a share that has more than doubled in the past two years."[0]

Administrators' Views: Traditional Carriers Versus Fronting and Hybrid Fronting Carriers

In 2021, The TMPAA State of Program Business Study found that some administrators are turning to fronting, participatory fronting or alternative capital markets for their program business. They were split in their views of the fronting approach. Those who use it either occasionally or frequently (31%) said fronting provides them more flexibility and allows them to use their dedicated reinsurance facility to assume risk. Some who rarely use fronting (31%) only utilize it as needed, while the rest (30%) prefer the traditional markets. The rest had no view on the topic.

In the 2023 study, the TMPAA and Zywave asked both administrators and carriers a series of fronting-related questions to gauge the level of adoption of fronting arrangements and gather views about the topic. This time, the study looked into the utilization of both fronting carriers and hybrid fronting carriers. The TMPAA defines fronting carriers as those that retain less than 10% of the risk and hybrid fronting carriers as those that retain 10% to 30% of the risk.

Seventy-five percent of administrators surveyed use traditional carriers for their programs, while 24% use nontraditional options. Among those using nontraditional alternatives, 14% reported using hybrid fronting carriers, 8% use fronting carriers, and 2% use alternative capital. This is notably different from the 2021 poll, which showed that there was virtually no use of hybrid carriers.

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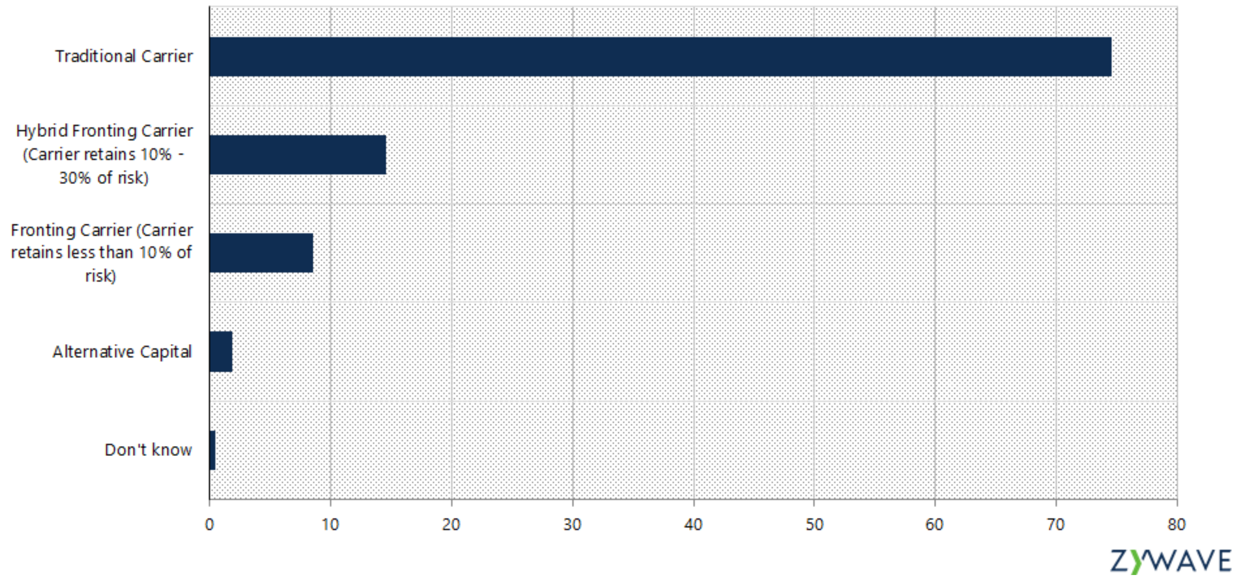
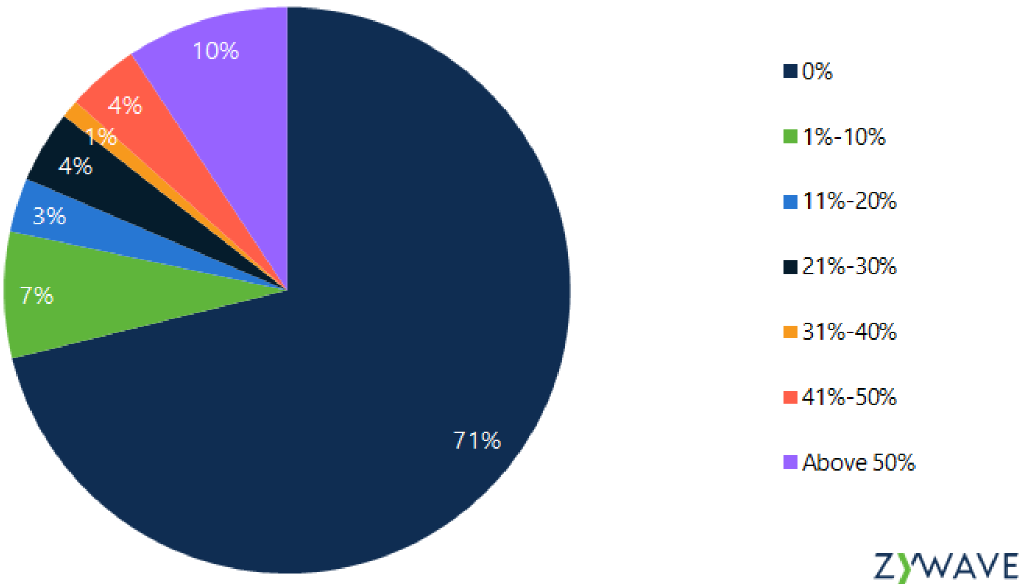
[8] AM Best, Hybrid Model Provides New Opportunities for Fronting Carriers, June 22, 2023.
[9] Conning, U.S. MGA Market Grows Swiftly, Exceeds $85 Billion in Premium in 2022, July 24, 2023. https://www.conning.com/about-us/news/ir-pr---2023-mga

APPROXIMATE PERCENTAGE OF EACH CARRIER TYPE USED FOR PROGRAMS



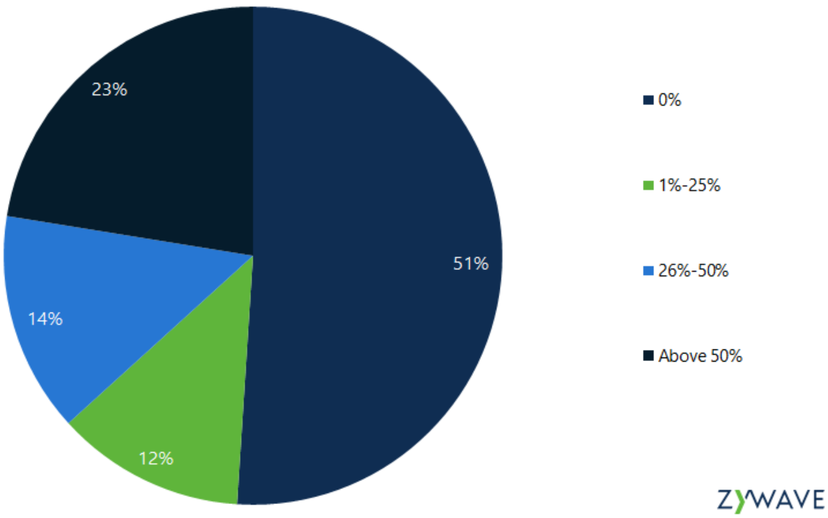
Almost three-fourths of the administrators polled did not move any programs from a traditional carrier to other options. Ten percent moved 50% of their programs, while 7% moved 1% to 10% of their programs. Four percent moved 21% to 30% of their programs and 41% to 50% of their programs, while 3% moved 11% to 20% of their programs. The remaining 1% moved 31% to 40%.

OVER THE PAST THREE YEARS, WHAT PERCENTAGE OF YOUR PROGRAMS DID YOU MOVE FROM A TRADITIONAL CARRIER TO ANOTHER OPTION?



Half of the administrators polled said they did not use an intermediary when they conducted a carrier search in the past two years. Twenty-three percent said they used an intermediary for more than 50% of their carrier searches, 14% said they did so for 26% to 50% of searches, and 12% used an intermediary for 1% to 25% of their searches.

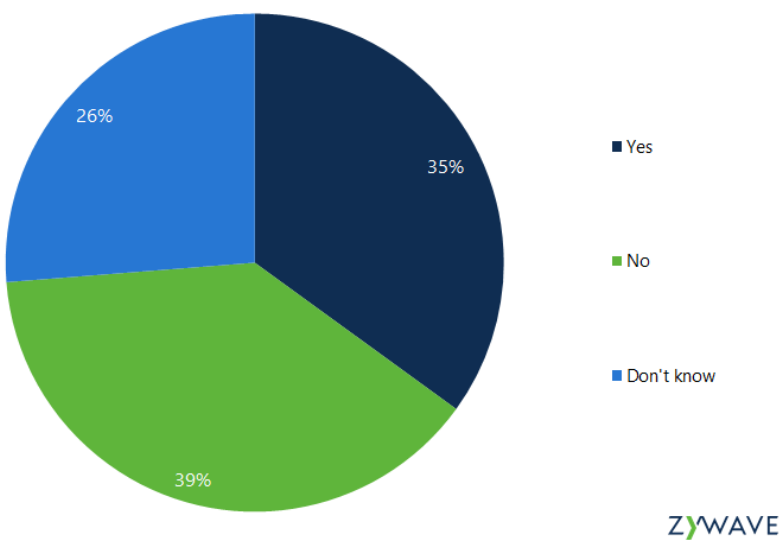
OF THE PROGRAMS YOU CONDUCTED A CARRIER SEARCH FOR OVER THE PAST TWO YEARS, WHAT PERCENTAGE DID YOU UTILIZE AN INTERMEDIARY?



Plans to Use Nontraditional Carriers in the Next Two Years

Views are split when it comes to plans to utilize nontraditional carriers in the next two years. Thirty-nine percent said they do not plan to do that, while 35% said yes. The remaining 26% expressed uncertainty about the topic. One administrator polled said, “It’ll be interesting to see how the use of hybrid fronting and straight fronts will evolve in the next few years.”

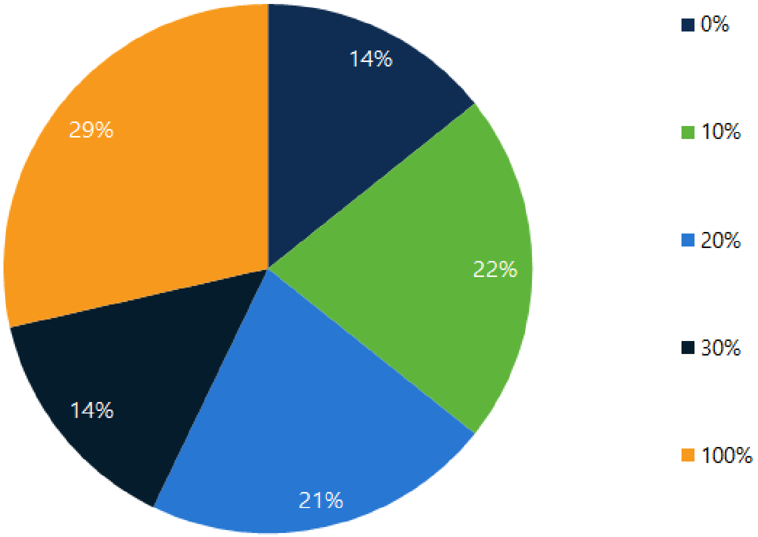
IF NOT CURRENTLY USING NONTRADITIONAL CARRIERS DO YOU PLAN TO UTILIZE THEM SOMETIME IN THE NEXT TWO YEARS?



Carriers' Views: Fronting and Hybrid Fronting

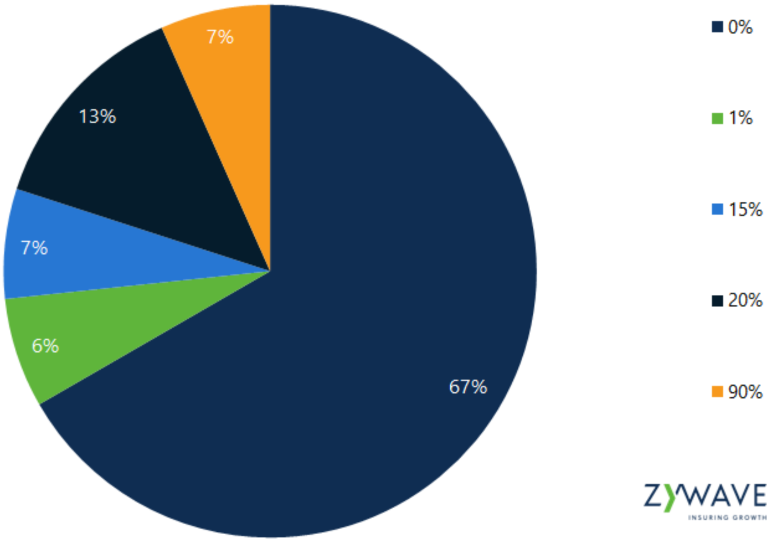
Carriers were asked what the maximum percentage they will retain net if they are a fronting or hybrid carrier. Twenty-nine percent of those who responded said they would retain 100%, 14% said 30% and another 14% said zero. Twenty-two percent said they will retain 10%, while 21% will retain 20%.

IF YOU ARE A FRONTING OR HYBRID CARRIER, WHAT'S THE MAXIMUM PERCENTAGE YOU WILL RETAIN NET?



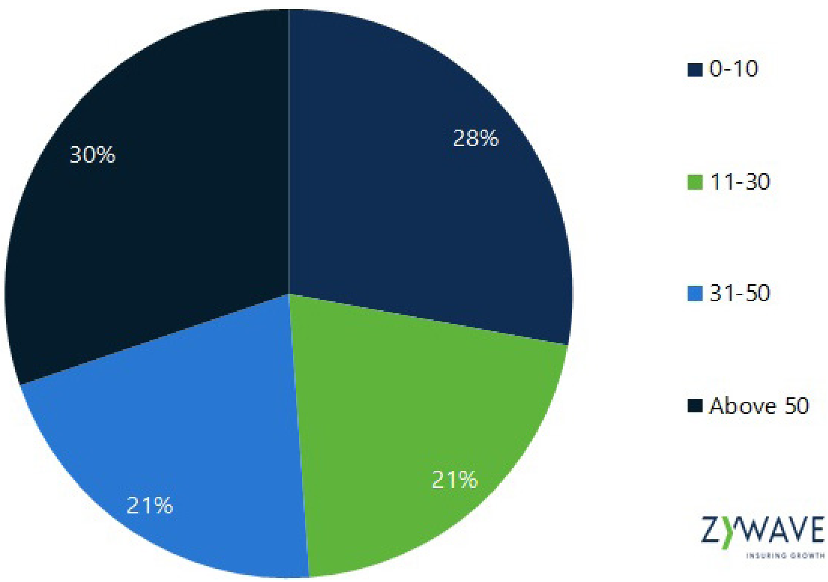
When asked about the minimum percentage they will retain net, 67% of the carriers polled said zero percent. Thirteen percent of the respondents will retain 20%, 7% will retain 90% and 15%, and 6% will retain 1%.

IF YOU ARE A FRONTING OR HYBRID CARRIER, WHAT'S THE MINIMUM PERCENTAGE YOU WILL RETAIN NET?



Like their administrator counterparts, carriers were asked about intermediaries. Thirty percent of carriers polled said more than 50% of their programs were brought to them by intermediaries, 28% said zero percent to 10%, 21% said 11% to 30%, and another 21% said 31% to 50%.

OVER THE LAST TWO YEARS, APPROXIMATELY WHAT PERCENTAGE OF PROGRAMS WERE BROUGHT TO YOU VIA INTERMEDIARIES?



Opportunity or Threat?

One notable observation from respondents' comments is that in the 2021 poll, views were split almost equally between those who see fronting as an opportunity versus those who view it as a threat. In the 2023 poll, comments that highlight the negative impact of fronting far outweighed positive views.

It is important to mention that the Vesttoo scandal broke during the survey process and the production of the study, which may have provided a backdrop for some of the responses. The Israel-based fintech provides insurers with access to insurance-linked securities. These securities may be backed by collateral in the form of letters of credit (LOC). According to reports, the company discovered that fraudulent LOC collateral from China Construction Bank had been used in reinsurance transactions. Ratings agencies said fronting companies with material exposure could face ratings action.[10]

According to one administrator, there are "too many players reliant on hybrid/front carriers who are driving premiums down to gain market share at the expense of sound underwriting results. This puts stress on disciplined players."

Several administrators are wary of instability. "Hybrid or slim balance sheet front carriers could cause instability in the fronting space if they fall by the wayside," said one administrator. Another respondent pointed to "unclear stability/longevity of hybrid front and alternative capital" as a threat to the program space.

A number of administrators and carriers listed hybrid fronting carrier failures as threats to the program business. "These will further restrict capacity in tough-to-place classes and lines of business," said one administrator. Echoing this comment, a carrier respondent listed "fallout from too many fronting hybrid carriers affecting capacity" as a threat.

[10] Evans, Steve. FBI investigating LOC fraud allegations linked to Vesttoo collateral, Artemis, August 1, 2023. https://www.artemis.bm/news/fbi-investigating-loc-fraud-allegations-linked-to-vesttoo-collateral/

> *"There will be a culling of fronting and hybrid carriers coming in the next five years. There has been an incredible influx of capacity and many have been aggressively adding new programs in some very difficult lines of business," one administrator said.*

Several administrators shared their views about the future of fronting carriers. "There will be a culling of fronting and hybrid carriers coming in the next five years. There has been an incredible influx of capacity and many have been aggressively adding new programs in some very difficult lines of business," one administrator said.

"I'm not sure how the hybrid fronts will fare over the next five years, but I'm certain the program business model will continue to flourish," another administrator commented.

"I think you have two cross-currents sort of going against each other," said Colis, commenting on the fronting phenomenon. "I hear a lot of people and I know in my own mind, I think there's going to be some culling or some kind of pullback. We already saw Vesttoo. The results haven't come in yet. Reinsurers are going to pull away. Programs are so prolific right now. On the other hand, you see these large groups bundling up programs, taking away from standard carriers and plunking them into these fronting relationships that they feel they have control over, and so that's happening at the same time. I think it's an interesting wait-and-see, but there are two different ways of looking at this right now."

Pesce said, "What's interesting to me is that there's, I think, a little bit of a shift. There has been a shift away from traditional fronting where they're pure fronting, taking a risk, and the reinsurers don't like that, so they're pushing for those fronts to have skin in the game. Most of the new fronts have somewhere between 10[%] and 20[%] and maybe some 30%. So it's had the opposite effect. You have people with the balance sheet [who] take a risk that shouldn't be. So there's going to be a shift back to the State National method, or I think the reinsurers are really in the scene in terms of what they deem as being acceptable collateral in these carriers. It's interesting to me."

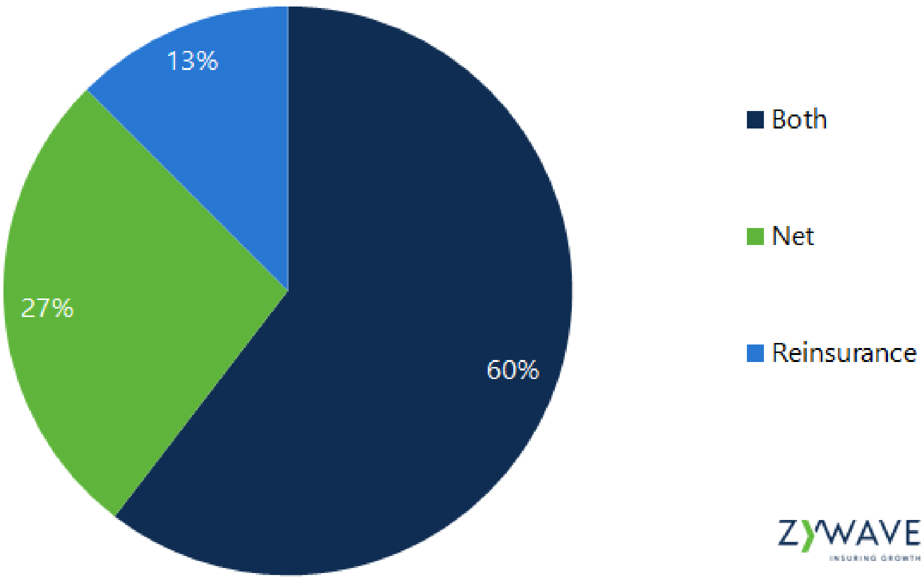
For Gene Abbey, director of Insurance Services and Education at the TMPAA, "It can be a deal-by-deal scenario. So some will say we will take 10 and 20%. We did one deal where we took zero percent. So it really depends on the deal. And I don't think it's going away. I think it's going to be an eyes wide open moment for everyone, including the reinsurers, but I think that's kind of how it works anyway."

Tendency to Take Programs Net or Use Reinsurance

Fronting is a reinsurance arrangement. Under this technique, the fronting carrier is the insurer under whose name the insurance policy is issued. The reinsurer then assumes all or a portion of the underwritten risk in exchange for an agreed-upon fee to the front. The terms that reinsurers offer to the front vary depending on the percentage of risk that fronting carriers will take. Traditional fronting carriers retain very little of the risk, while hybrid fronting carriers retain more.

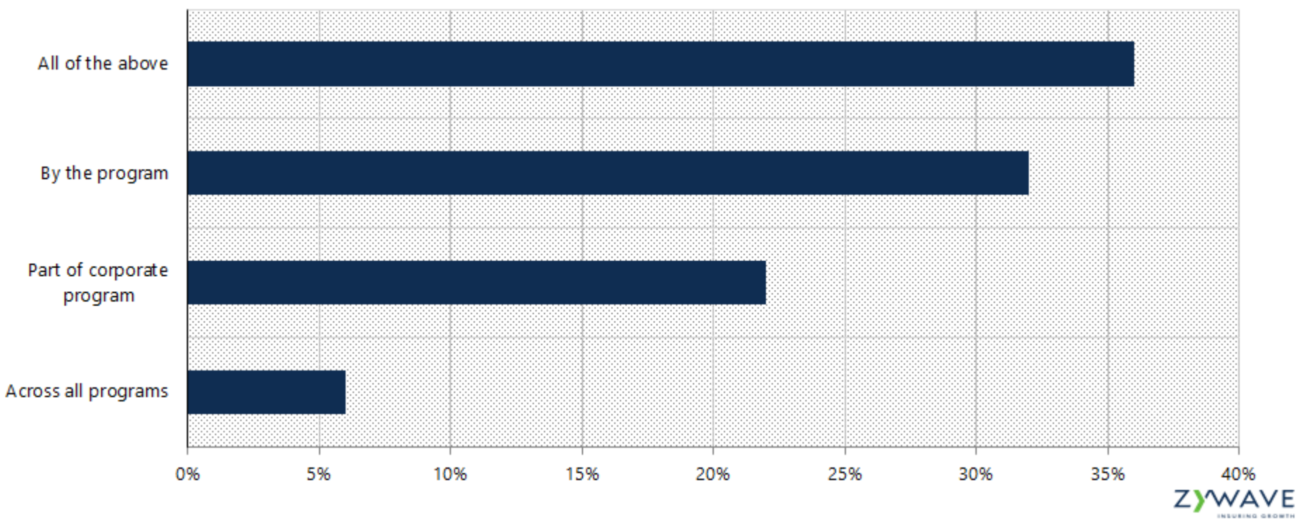
The TMPAA and Zywave asked carrier respondents whether they have the tendency to take programs net or use reinsurance, and 27% said they tend to take programs net—a few percentage points higher than 23% in the previous poll. Thirteen percent use reinsurance; this compares to 5% in the 2021 survey. The remaining 60% use both mechanisms, a significant decline from 72% in the previous poll.

DO YOU TEND TO TAKE PROGRAMS NET, PERCENTAGE RETENTION OR REINSURANCE?



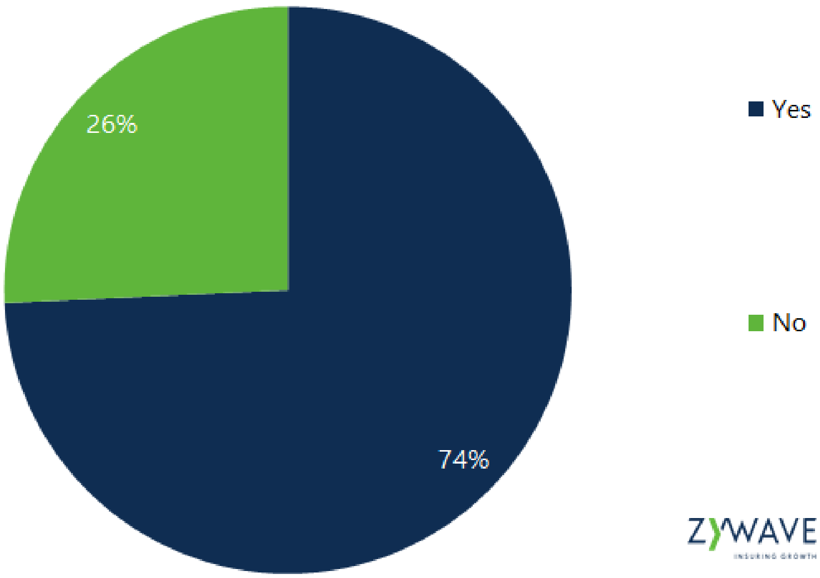
Among carriers who reported using reinsurance, 36% responded “all of the above” when asked how the reinsurance they use is structured, a material decline from 52%. These carriers use reinsurance structured either across all programs or as part of a corporate program. Thirty-two percent said it is structured by the program, significantly higher than 22% in the 2021 poll. Twenty-two percent said it is structured as part of a corporate program, up marginally from 20%. The remaining 6% responded across all programs.

IF YOU USE REINSURANCE, HOW IS IT STRUCTURED?



Seventy-four of the carriers polled allow program administrators to administer claims—a substantially higher percentage than the 60% who reported the same in the previous survey. Twenty-six percent of respondents do not allow their administrators to administer claims, a significant increase from 10% in 2020. In the prior survey, there were 30% who responded “others,” but none did the same this time.

DO YOU ALLOW YOUR PROGRAM ADMINISTRATORS TO ADMINISTER CLAIMS?

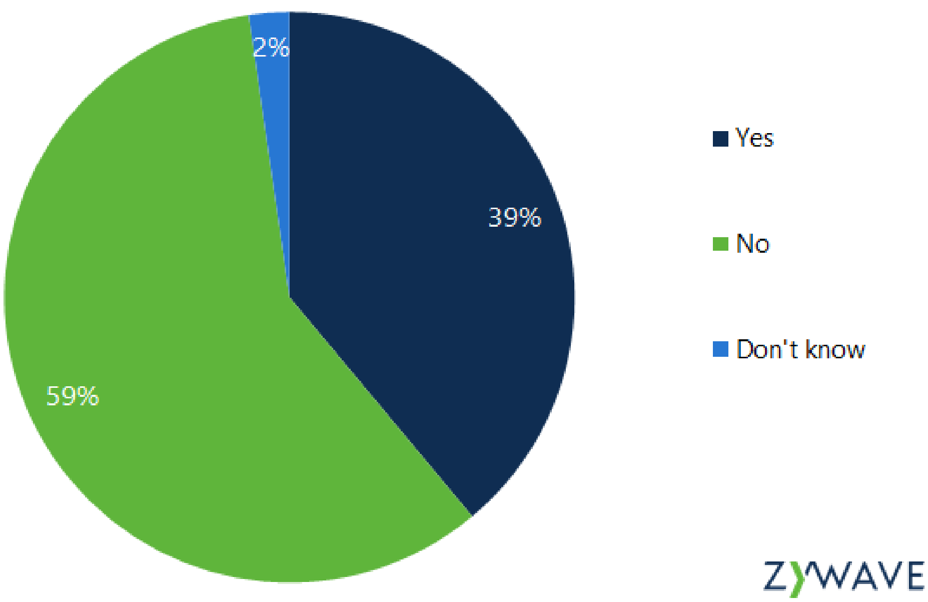


Use of a Lloyd's Syndicate for Program Business

After increasing from 42% in 2018 to 45% in 2020, the percentage of administrators using a Lloyd's syndicate for program business dropped to 39% in 2022. Consequently, those who do not use a Lloyd's syndicate increased from 54% in 2020 to 59% in 2022.
Conning's overall estimate of $85.5 billion includes Lloyd's reported $7.3 billion premium sourced from U.S. MGAs in the year. In its study, the research firm and asset manager noted that "MGA premium backed by Lloyd's capacity—which in the past has been the largest supporter of MGAs in the U.S. market —rose by only 2% in 2022, taking it back to the level last seen in 2019. It reported that, in terms of exposure, "the U.S. MGA business supported by Lloyd's contracted materially."

In the case of the TMPAA, the total premium members in Lloyd's is pegged at $2.914 billion. However, this only pertains to coverholder premium.

DO YOU USE A LLOYD'S SYNDICATE FOR ANY OF YOUR PROGRAM BUSINESS?



Risk Sharing

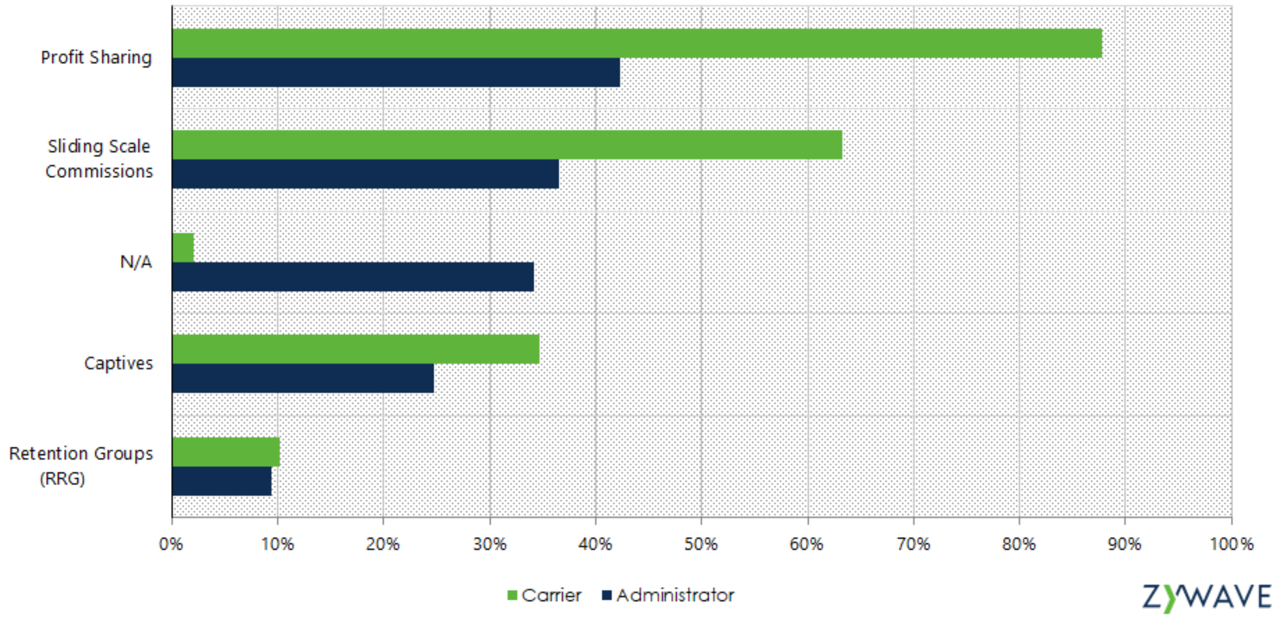
As with the previous poll, administrators and carriers were asked about their risk-sharing practices.

Forty-three percent of administrators reported risk sharing in both underwriting gains and losses in 2022. This is lower than the 51% who reported risk sharing in 2018 and 47% reported in 2020. On the other hand, those who responded "no" increased from 49% in 2018 to 53% in 2020 then to 56% in 2022.

Among carriers, 92% reported risk sharing in 2022. This compares to 95% in the previous poll.

Consistent with the findings of the previous survey, the top risk-sharing methods used by both administrators and carriers are profit sharing and sliding scale commissions.

COMPARATIVE ANALYSIS: RISK SHARING METHODS

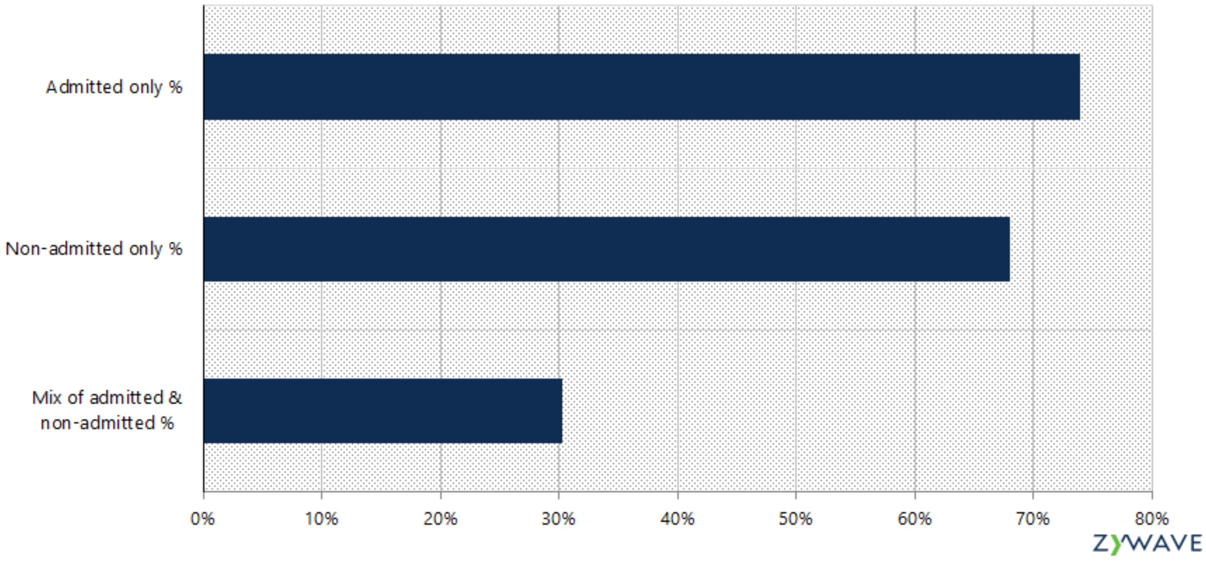


Admitted Versus Non-admitted

Administrators' Views: Admitted Versus Non-admitted

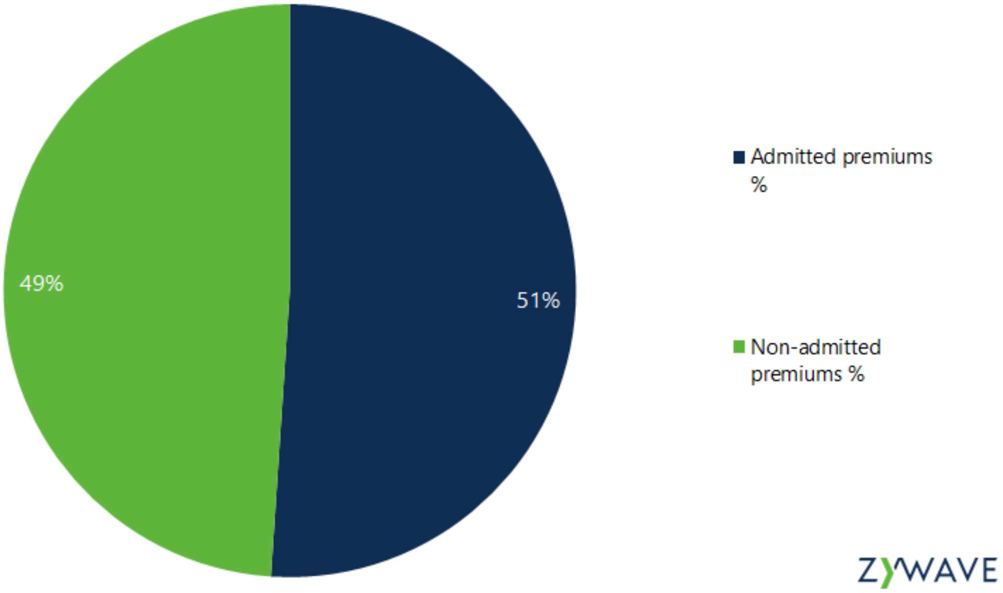
Seventy-four percent of the administrators polled said they have admitted programs only, while 68% have non-admitted programs only. Thirty percent offer a mix of both.

PERCENTAGE OF ADMINISTRATORS WITH ADMITTED VS NON-ADMITTED PROGRAMS



Administrators were asked the question: "Approximately what percent of your program premiums are admitted versus non-admitted?" Responses show that approximately 51% of premiums are admitted while 49% are non-admitted—the same as the previous poll.

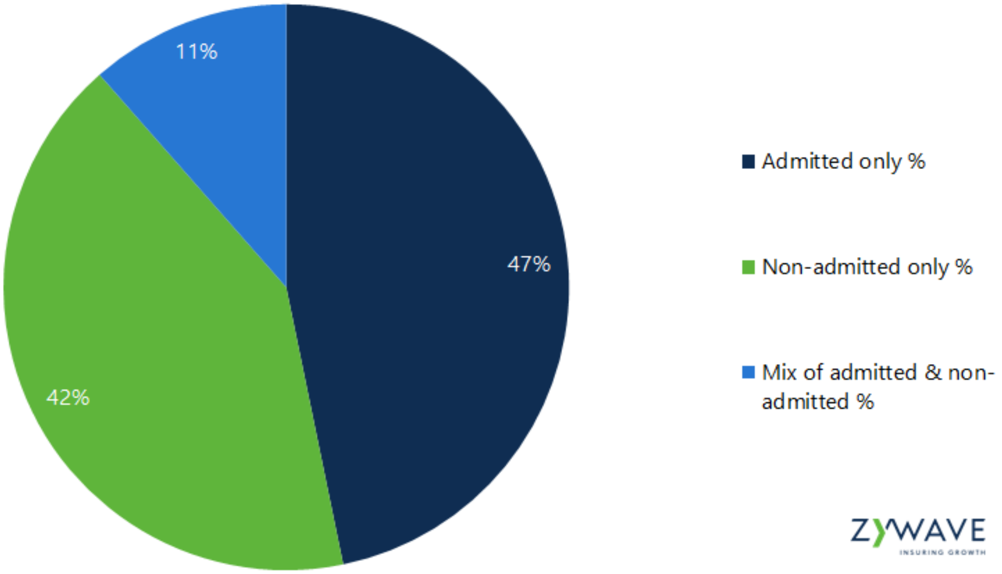
ADMINISTRATORS: PERCENTAGE OF ADMITTED VS NON-ADMITTED PREMIUMS



Carriers' Views: Admitted vs. Non-admitted

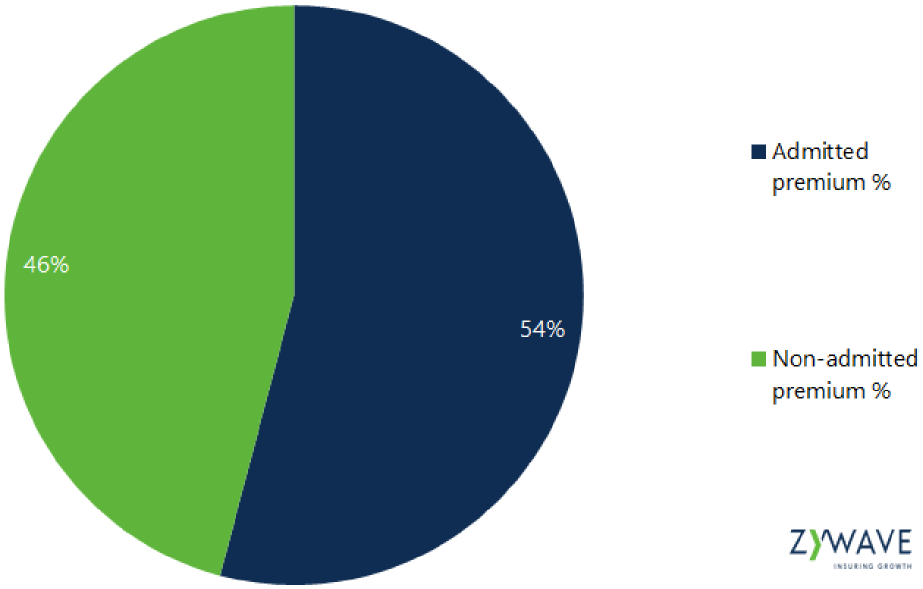
Forty-seven percent of the carriers surveyed said they have admitted programs only, down a few points from 50% in the previous poll. Forty-two percent have non-admitted programs only. The remaining 11% offer a mix of both—up a few percentage points from 7% in 2020.

PERCENTAGE OF CARRIERS WITH ADMITTED VS NON-ADMITTED PROGRAMS



Responses show that approximately 54% of premiums are admitted while 46% are non-admitted—unchanged from the 2021 poll.

CARRIERS: PERCENTAGE OF ADMITTED VS NON-ADMITTED PROGRAM PREMIUMS



VII. Delivery of Services in the Program Space

In the past decade, the TMPAA and Zywave have been tracking program administrators' practices related to delivering key services to their clients. A key area of interest is how administrators deliver various services. Which services are delivered in-house, and which are outsourced? Are there any differences between larger and smaller administrators in terms of mode of service delivery?

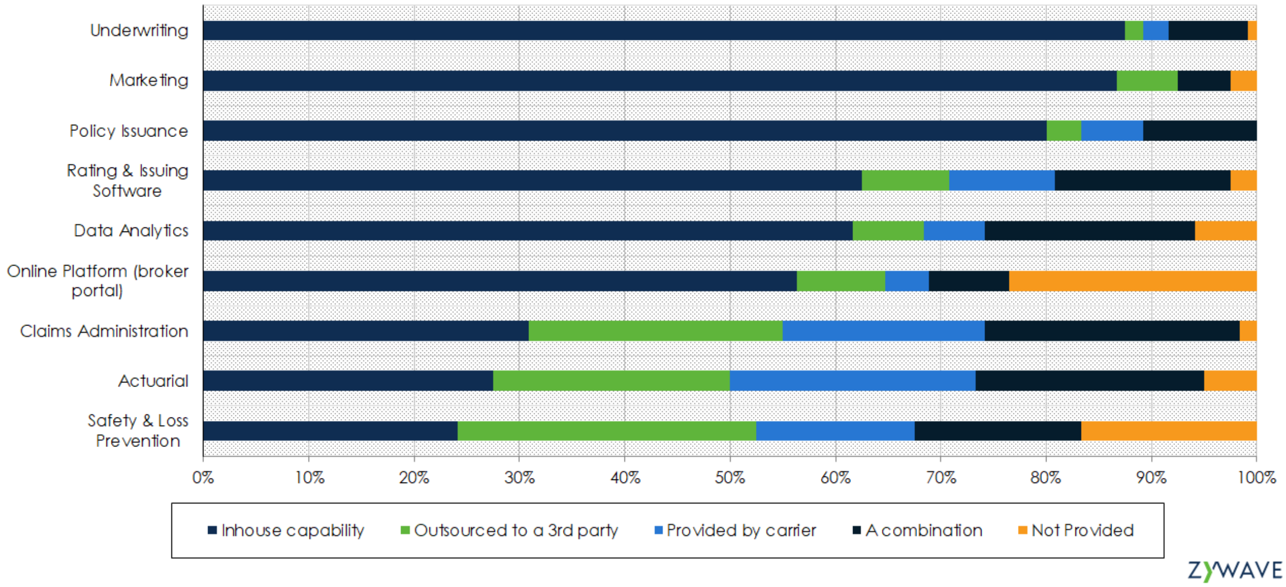
An important trend the survey tracked through the past 10 years is program administrators increasingly bringing more services in-house.

The 2021 poll found that while the majority of administrators still tend to provide core services in-house, declines were observed in certain services, including marketing, rating and issuing software, data analytics, claims administration and policy issuance.

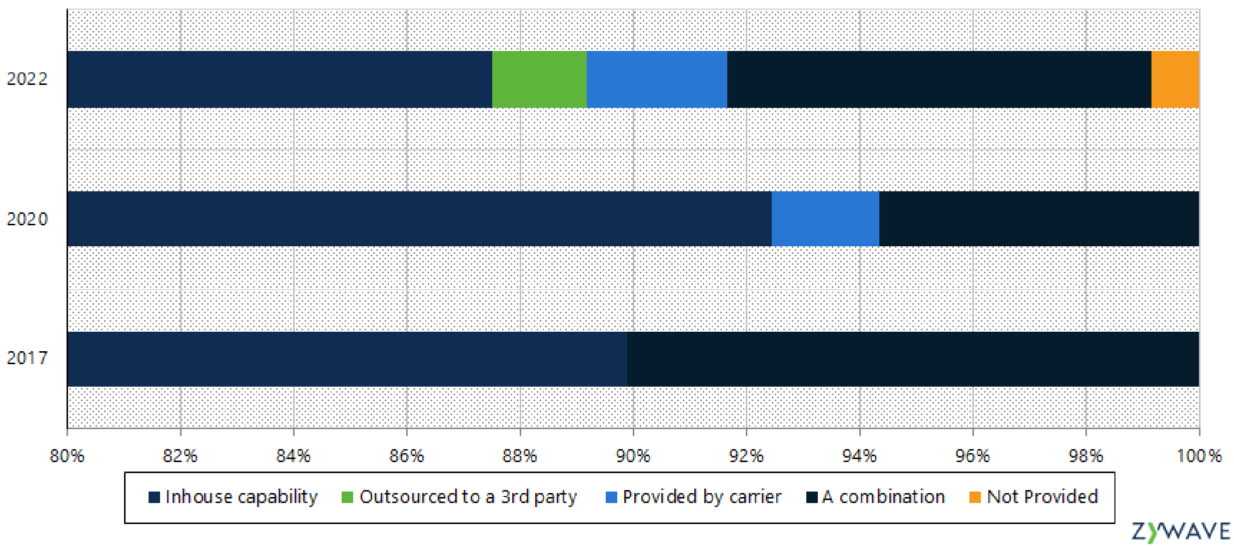
This trend continued to be observed for some services in the 2023 survey. Those offering underwriting in-house declined from 92% in 2020 to 86% in 2022. Marginal declines were also seen in other core services between 2018 and 2022: policy issuance (83% in 2018 versus 81% in 2020 versus 80% in 2022) and rating and issuing software (64% in 2020 versus 63% 2022).

Examining how the delivery of services has evolved over time reveals an interesting trend: Administrators are beginning to outsource core services. This is particularly evident in marketing, data analytics and policy issuance. Even underwriting is starting to see some outsourcing. Among the firms providing outsourcing services to the MGA and MGU markets are Majesco, Patra and Solartis.

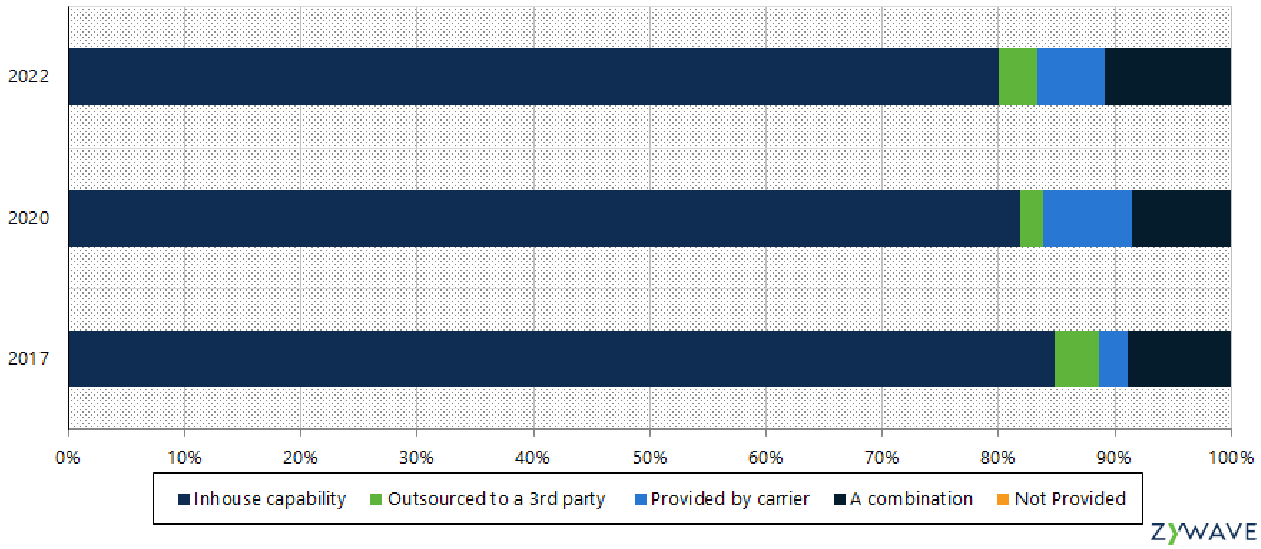
HOW SERVICES ARE DELIVERED



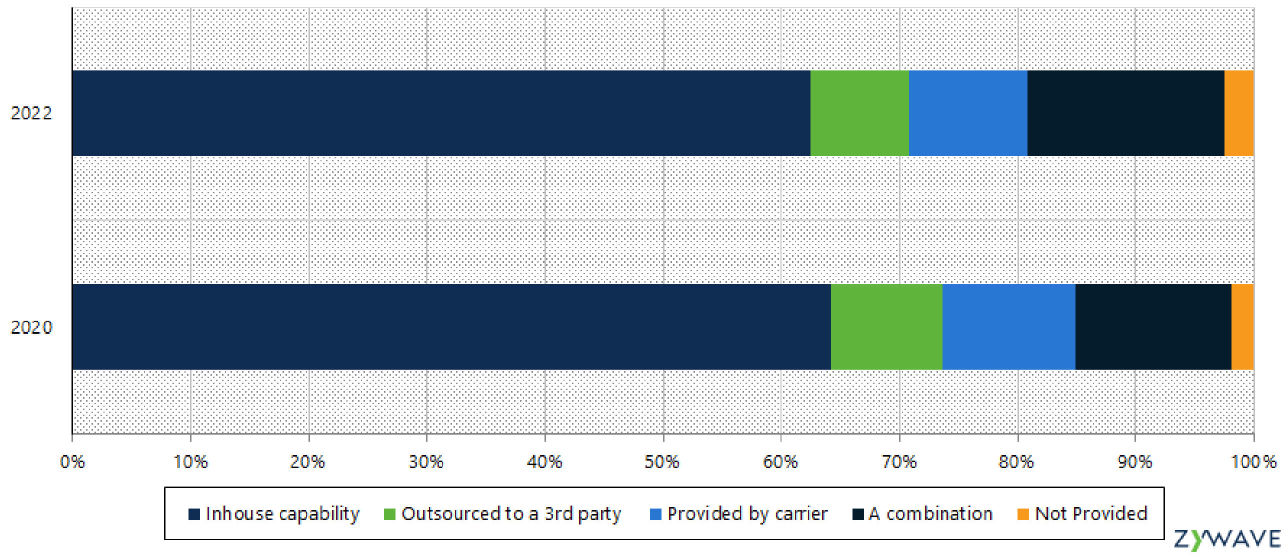
DELIVERY OF UNDERWRITING SERVICES OVER TIME



DELIVERY OF POLICY ISSUANCE SERVICES OVER TIME

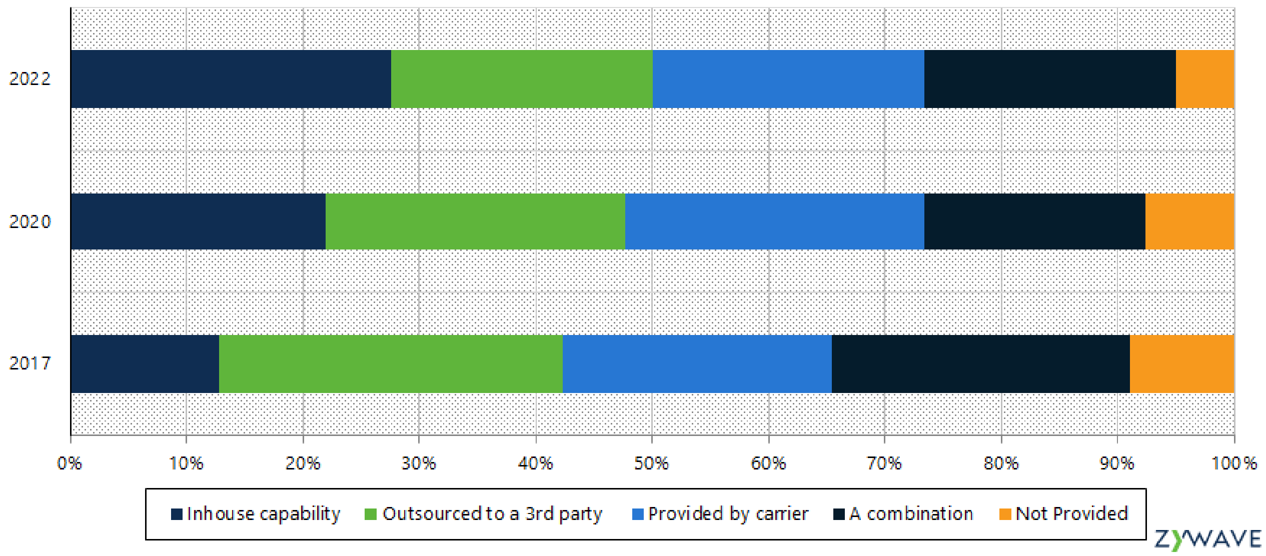


DELIVERY OF RATING AND ISSUING SOFTWARE SERVICES OVER TIME

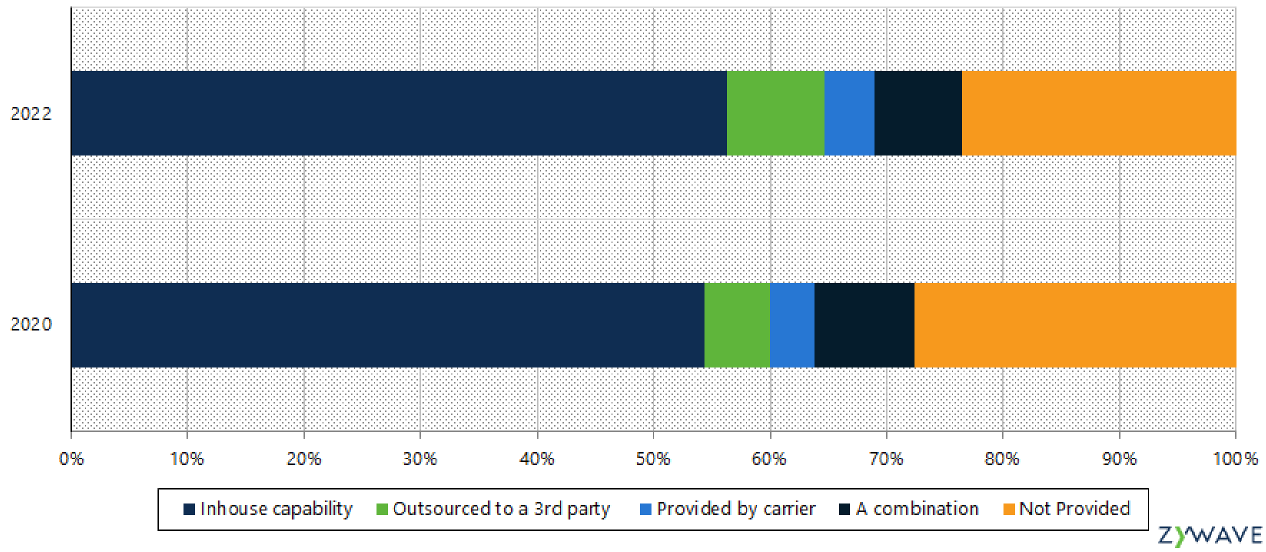


On the other hand, those offering actuarial services in-house increased from 18% in 2018 to 22% in 2020, then to 28% in 2022. Similarly, those providing online platforms in-house (broker portal) rose from 53 percent in 2020 to 56% in 2022.

DELIVERY OF ACTUARIAL SERVICES OVER TIME

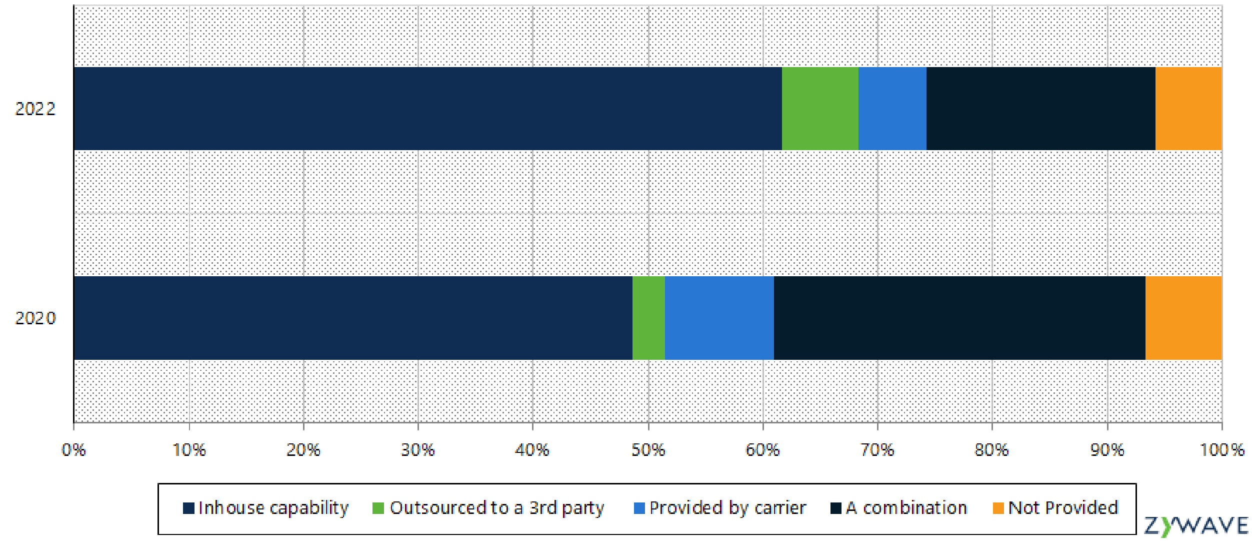


DELIVERY OF ONLINE PLATFORM SERVICES OVER TIME

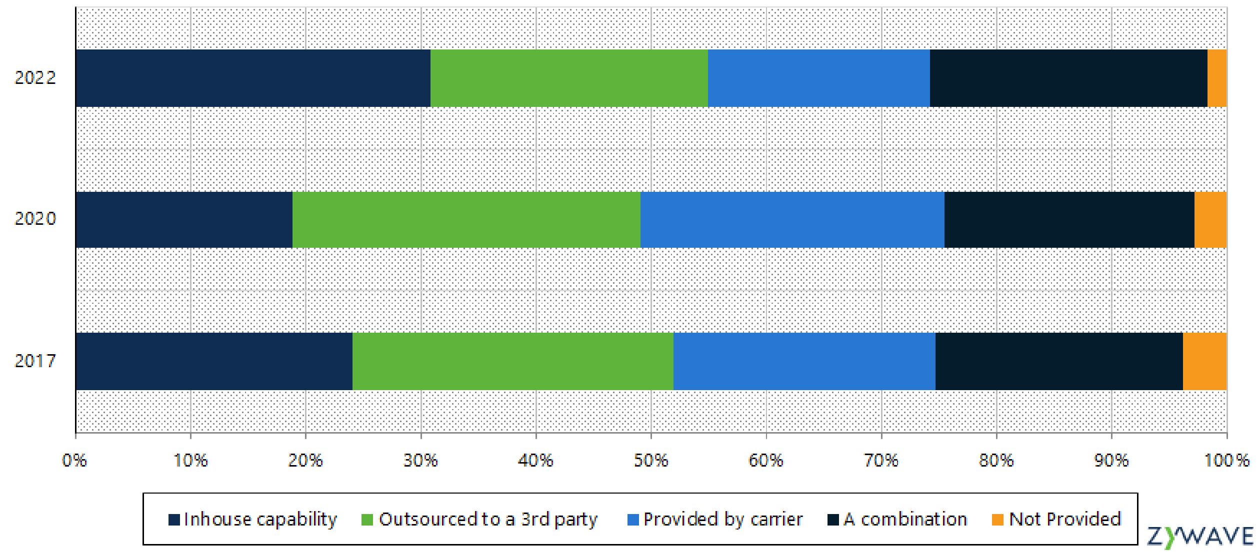


In the case of data analytics, after declining from 55% in 2018 to 48% in 2020, it rose to 62% in 2022. Similarly, claims administration increased to 31% in 2022 after dropping to 19% in the previous survey. Marketing and safety and loss prevention services also saw a similar trend.

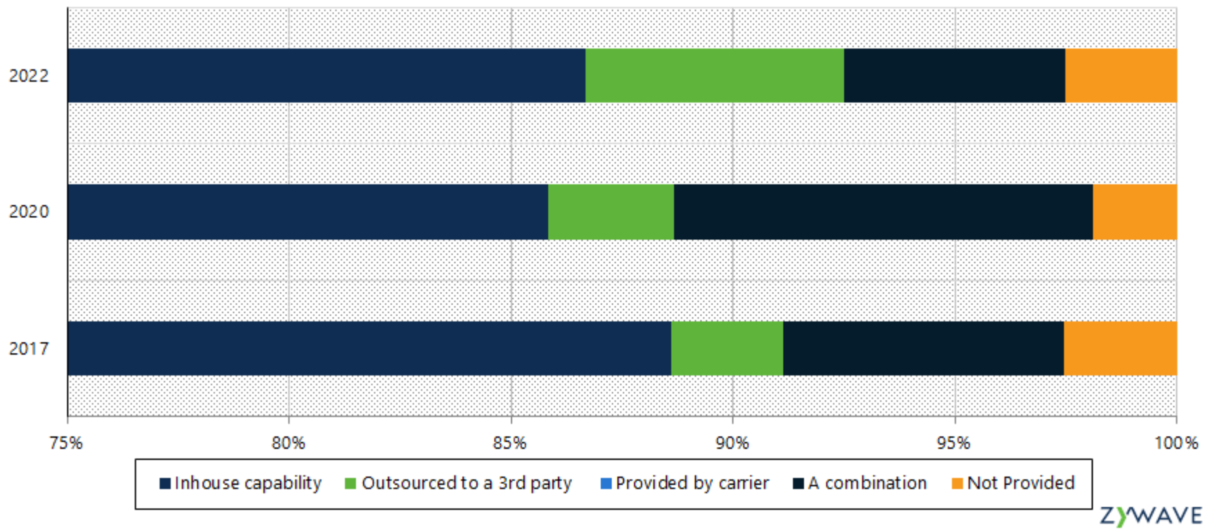
DELIVERY OF DATA ANALYTICS SERVICES OVER TIME



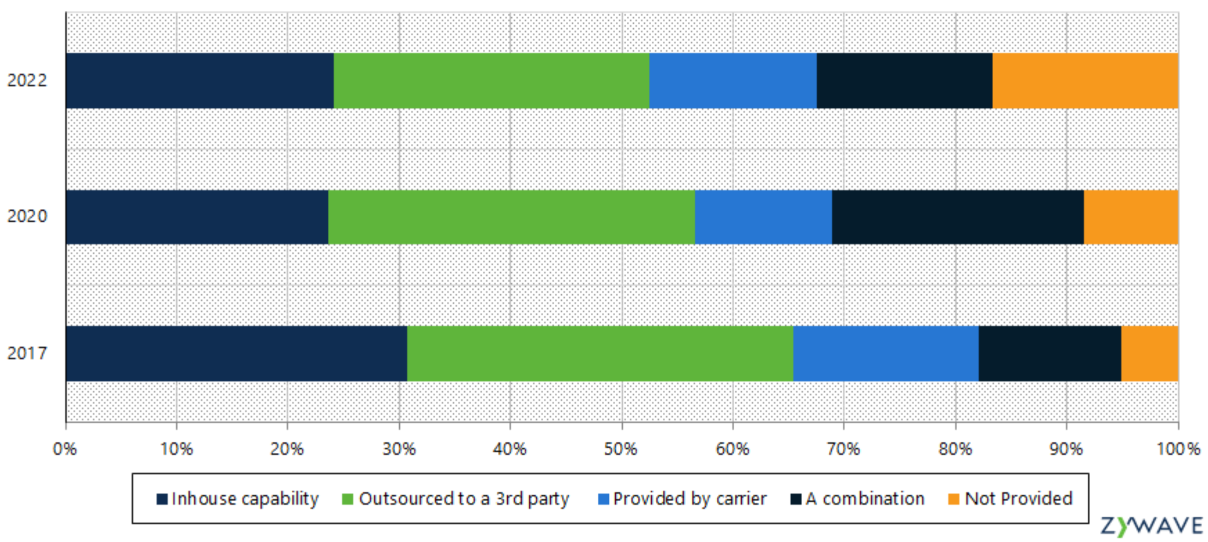
DELIVERY OF CLAIMS ADMINISTRATION SERVICES OVER TIME



DELIVERY OF MARKETING SERVICES OVER TIME



DELIVERY OF SAFETY AND LOSS PREVENTION SERVICES OVER TIME



In reviewing whether the mechanism for delivering services varies materially by administrator size, the TMPAA State of Program Business Study found that consistent with the findings of previous surveys, underwriting, policy issuance, marketing, rating and issuing software, data analytics and online platform (broker portal) tend to be offered in-house across all administrator size brackets.

In the case of actuarial services, the larger firms tend to either offer the service in-house or use a combination of options. The mid-sized firms typically deliver this service through a combination of options or through a third-party provider, while the smaller firms tend to rely on their carriers.

Among the larger companies, claims administration and safety and loss prevention services tend to be delivered either in-house or using a combination of mechanisms. For their mid-sized counterparts, this service is delivered either in-house, outsourced to a third party or provided by a carrier. Among smaller firms, this service tends to be provided by carriers or outsourced.

VIII. Mergers and Acquisitions

While the number of global insurance M&A transactions declined between 2021 and 2022 owing to a decrease in the number of health transactions, the property and casualty and life sectors witnessed an increase in transactions, according to a February 2023 study by Conning. However, the reported value of these transactions was lower.

“In 2022, 76 M&A transactions involving property-casualty insurers was a substantial increase from 67 in 2021,” said Alan Dobbins, Conning director of Insurance Research, in a press release. “That said, the aggregate value of those transactions decreased.”[11]

“The MGA/MGU/PA market is attracting a high level of interest,” one carrier respondent said. “Capital support from private equity firms and reinsurers, as well as the continued implementation of technology in the value chain, should fuel further interest in this segment. It also may result in the notable differentiation among current and emerging program market participants.”

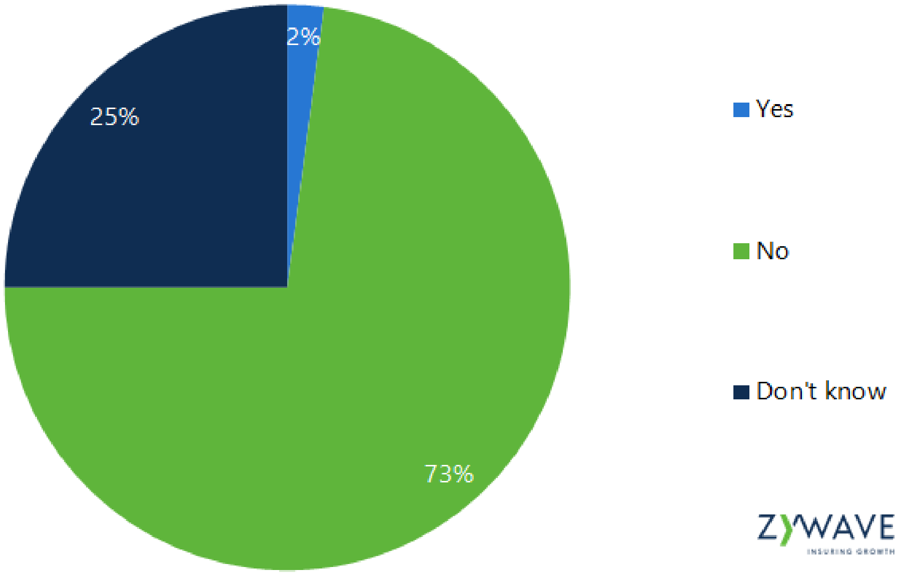
Among the largest transactions in the P&C segment were Berkshire Hathaway’s $11.57 billion purchase of property and casualty reinsurance company Alleghany Corp. and Brown & Brown’s $1.79 billion purchase of Global Risk Partners. In the program space, among the M&A transactions recorded in 2022 were One80 Intermediaries’ acquisition of Agentic Insurance, CPG, Innovative Risk Management and several other firms; Amwins’ purchase of Arena Special Risks; and Johnson & Johnson’s acquisition of Midlands Management Corporation.

“The MGA/MGU/PA market is attracting a high level of interest,” one carrier respondent said. “Capital support from private equity firms and reinsurers, as well as the continued implementation of technology in the value chain, should fuel further interest in this segment. It also may result in the notable differentiation among current and emerging program market participants.”

[11] Conning, Conning Announces its Newest Strategic Report - Global Mergers & Acquisitions in the Insurance Industry: 2022 Insurer Edition, February 9, 2023. https://www.conning.com/about-us/news/ir-pr---global-ma-insurance-industry-2022

The TMPAA asked carrier respondents if they plan to grow their program business by acquiring administrators. The percentage of those saying "no" increased materially from 46% in 2020 to 73% in 2022. On the other hand, those who do not know or are uncertain declined remarkably from 46% to 29%. Those who reported plans to acquire program administrators dropped from 8% to 2%.

PLAN TO GROW PROGRAM BUSINESS BY ACQUIRING ADMINISTRATORS



M&A in the Program Space: Boon or Bane?

Program administrators' and carrier respondents' comments on M&A reveal mixed views on deal-making in the program space. For some, M&A is seen as a weakness. "The increasing consolidation of the business into a few large players [is a weakness]. The number of independents has been shrinking for a very long time," said one administrator. Another expressed concern that "M&A will cause combined ratios to increase due to aggressive growth."

From some administrators' point of view, too much consolidation is a threat to the program space. One warned that "M&A could eventually water down and discourage the entrepreneurial skill set of program business." Another respondent echoed this view, saying, "Market consolidation of distribution, great leverage in hands of the few."

Commenting on weaknesses, one carrier respondent highlighted, "The market has grown with many new carriers. Program business is a long-term investment, and there are few carriers who are dedicated for the long term. It's expected that many of the new hybrids will be acquired by other carriers/investors (Markel & State National, Mitsui & Transverse), which could change their appetite for new and existing programs."

Another carrier is sounding the alarm that "the aggressive activity to buy or sponsor MGAs, MGUs and PAs is blurring the lines between distributors, insurers and reinsurers."

Some respondents are not overly concerned. "Consolidation will continue, but the industry does a nice job of regenerating new PAs and will continue to lead the way in innovation and entrepreneurial spirit."

A number of carriers look at M&A as an opportunity for the program space. “We expect to see the trend of consolidation in the program administrator space to provide us increased opportunities in our current markets, as well as provide us new opportunities with administrators that have acquired programs in spaces we don’t currently write and can expand into,” said one carrier respondent. Another carrier polled commented, “The opportunities are enormous for a disciplined underwriting organization to distinguish themselves and take advantage of consolidation, fractured capacity, and continued up-pricing in the market.

> *One respondent shared, “When evaluating potential acquirers, several key characteristics are considered to determine if they are a good match. These characteristics help gauge the compatibility, strategic alignment and long-term success of the acquisition. [One is] strategic alignment. It is crucial to assess the strategic fit between the potential acquirer and the target company. This includes evaluating whether their business goals, market positioning and core competencies align with the objectives of the acquisition. A strong strategic alignment ensures a shared vision and enhances the potential for synergies and successful integration.”*

What Administrators and Service Providers Look for in an Acquirer

While many administrators polled mentioned that they are not looking to be acquired at the moment, some of them offered insight as to what they look for in a potential acquirer.

One respondent shared, “When evaluating potential acquirers, several key characteristics are considered to determine if they are a good match. These characteristics help gauge the compatibility, strategic alignment and long-term success of the acquisition. [One is] strategic alignment. It is crucial to assess the strategic fit between the potential acquirer and the target company. This includes evaluating whether their business goals, market positioning and core competencies align with the objectives of the acquisition. A strong strategic alignment ensures a shared vision and enhances the potential for synergies and successful integration.”

Another administrator shared this view on strategic alignment. “The number one characteristic we look for is if the business is additive and/or complimentary to our current offering and will not end up as a distraction.”

Several administrators prioritize financial stability, reputation and track record. “A potential acquirer should demonstrate financial stability and possess the necessary resources to support the acquisition,” said one, while another shared, “Financial strength, reputation and ability help our firm grow and achieve better results than we otherwise would.” Some respondents highlight the importance of an acquirer’s culture. “Good fit culture-wise, i.e., do they see the world the same way we do?” commented one administrator. “Can they drive business to us so we can hit max earn-out goals? Can they offer equity with significant upside?” For another participant, “Assessing the cultural compatibility between the acquirer and the target company is essential for a smooth integration process. Compatibility in terms of values, management style and corporate culture fosters better collaboration [and] employee retention and ensures continuity of customer relationships.” “Their mission and culture must mesh with ours,” another confirmed.

Others look for acquirers who have a clear vision and understanding. “Do they understand and intend to cultivate what makes us successful? Rather than seeing us as a book of business to be shoehorned into their existing framework,” said one poll participant.

Trust, expertise, commitment to innovation and growth, product synergy and respect for autonomy are some of the other traits mentioned in the long list of qualifications.

Service providers were also asked the same question, and their responses fairly aligned with those of the administrators. One respondent is looking for an acquirer who has a “clear vision with [a] willingness to acknowledge weakness and create partnerships to resolve.”

Several service providers said they prefer acquirers who are creative thinkers, have an appreciation for their products and services, and are willing to invest in innovation. Like their administrator peers, they also look for strategic synergies and a good cultural fit.

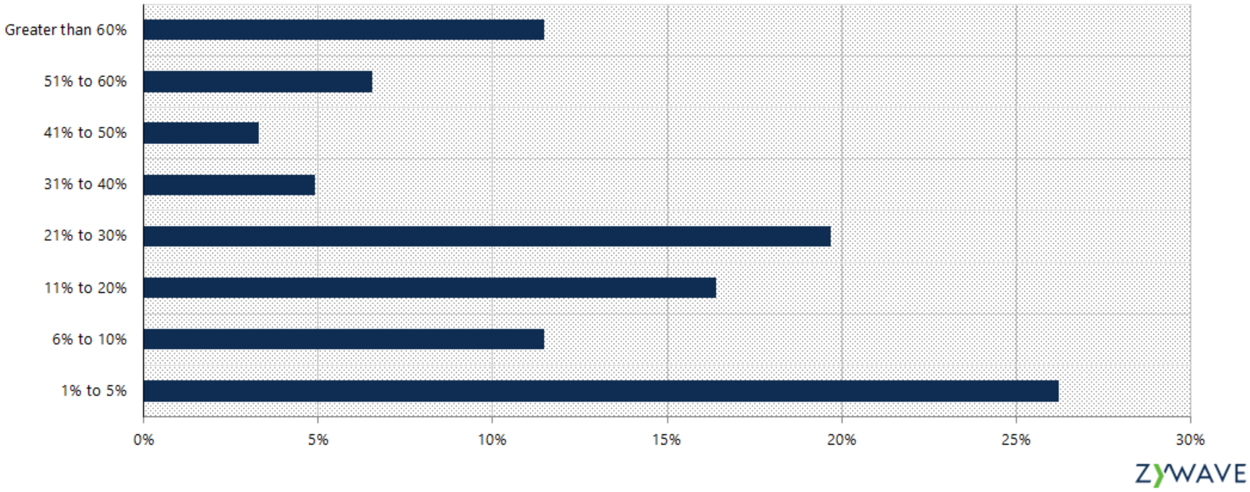
IX. Cyber Coverage

The cybersecurity landscape is rapidly evolving as threats increase in both frequency and sophistication. Cyber continues to be one of the biggest organic growth opportunities for the commercial insurance industry. Among administrators, correctly identifying cyber risks in a book of business and offering adequate coverage to mitigate potential losses have become a growing challenge.

For The TMPAA State of Program Business Study 2023, the TMPAA and Zywave posed this question: “Where it’s optional, approximately what percentage of your insureds purchase cyber coverage?”

According to 26% of administrators polled, 1% to 5% of their insureds purchase cyber coverage, while 11% said 6% to 10%; 16% responded 11% to 20%; 20% said 21% to 30%; 5% said 31% to 40%; 3% said 41% to 50%; 7% responded 51% to 60%; and 11% said greater than 60%.

ADMINISTRATORS: PERCENTAGE OF INSUREDS THAT PURCHASE CYBER INSURANCE



More companies are buying cyber insurance policies, according to the 12th annual Information Security and Cyber Risk Management Survey from Zurich North America and Zywave.[12] The 2022 study found that 86% of respondents now have cyber insurance, up a few percentage points from the 83% reported in 2021 —the highest percentage in the survey's history. The Zurich survey results also revealed that about 83% of respondents report that they have implemented steps to assess their cyber risk, and 69% have invested in cybersecurity solutions to mitigate increasing risks.

> *"With the increasing reliance on digital technologies, the risk of cyberthreats and data breaches is a growing concern," an administrator respondent said. "Program business can be an effective approach to address the unique needs of businesses in different sectors, offering tailored coverage for cyber liability, data protection and business interruption."*

Responses to the TMPAA's Program Business Study mirror the trend observed in the Zurich survey.

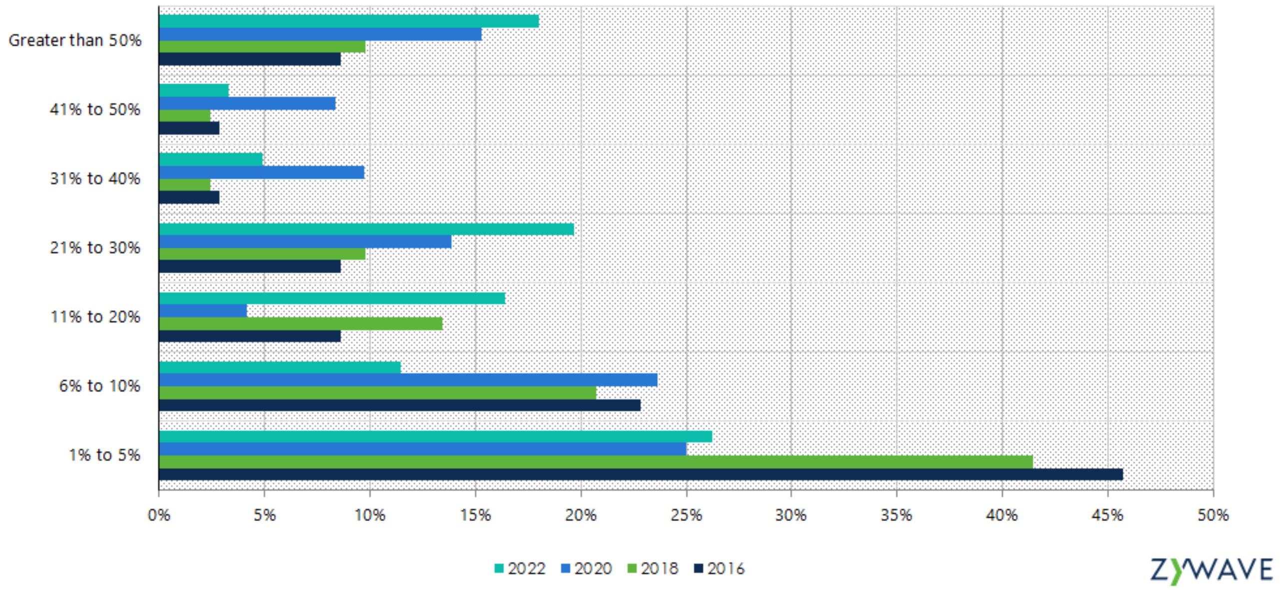
The TMPAA's and Zywave's comparative analysis of cyber take-up rates between 2016 and 2022 responses shows a significant increase in the past six years. Notably, as those reporting adoption purchase rates of 1% to 5% and 6% to 10% declined, those with take-up rates of 11% to 20%, 21% to 30%, and greater than 50% climbed significantly. It is important to note, though, that slight declines were observed in the 31% to 40% and 41% to 50% brackets.

Such findings suggest a substantial increase in cyber risk awareness among risk professionals and the increasingly growing understanding of the threat cyberattacks pose to their businesses and organizations.

"With the increasing reliance on digital technologies, the risk of cyberthreats and data breaches is a growing concern," an administrator respondent said. "Program business can be an effective approach to address the unique needs of businesses in different sectors, offering tailored coverage for cyber liability, data protection and business interruption."

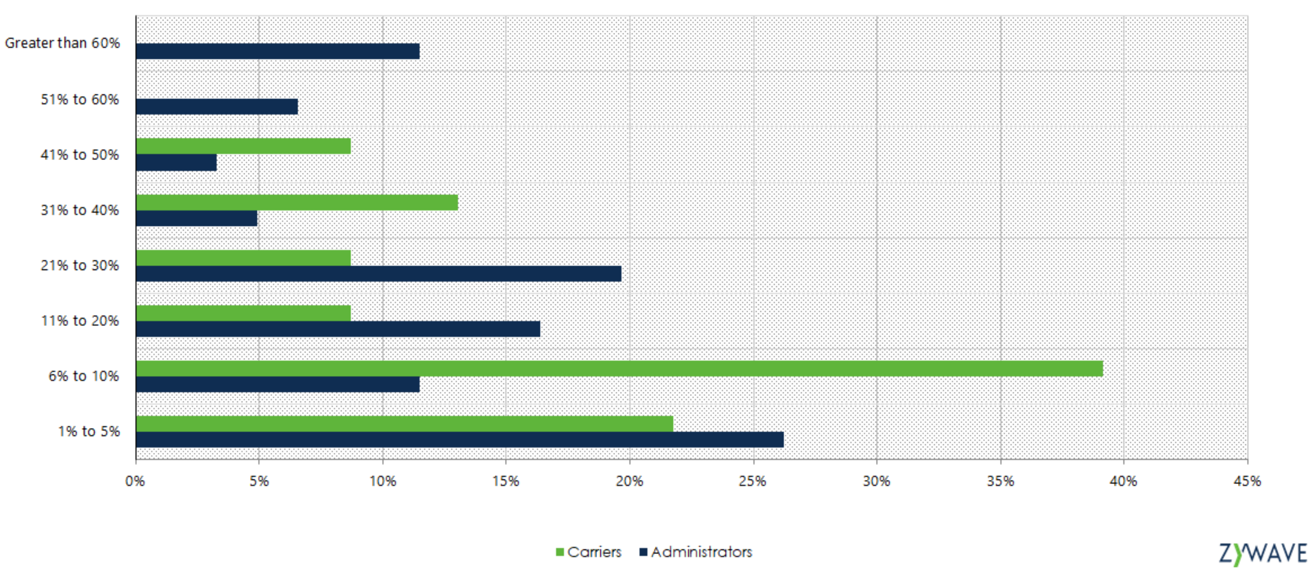
[12] Zurich North America, 12th annual Information Security and Cyber Risk Management Survey, November 2022. https://www.zurichna.com/knowledge/articles/2022/11/2022-advisenzurich-survey-shows-growing-adoption-of-cyber-insurance

CYBER TAKE-UP RATES



Consistent with the findings in previous years, administrators reported higher cyber take-up rates than their carrier counterparts.

COMPARATIVE ANALYSIS: CYBER COVERAGE



X. Impact of Insurance Technology on Distribution

Over the past two decades, the insurance industry has witnessed the rise of insurance technologies. Insurtech companies have taken the industry by storm, affecting processes like comparing policies, purchasing coverage, and managing claims.

The TMPAA and Zywave started tracking administrators' and carriers' views and practices in insurance technology in the 2017 poll. For the 2023 study, administrators and carriers were asked if insurance technology is causing administrators to consider a change in distribution. Twenty-one percent of administrators and 15% of carriers answered "yes"—a significant decline from 32% and 30%, respectively, in the previous survey.

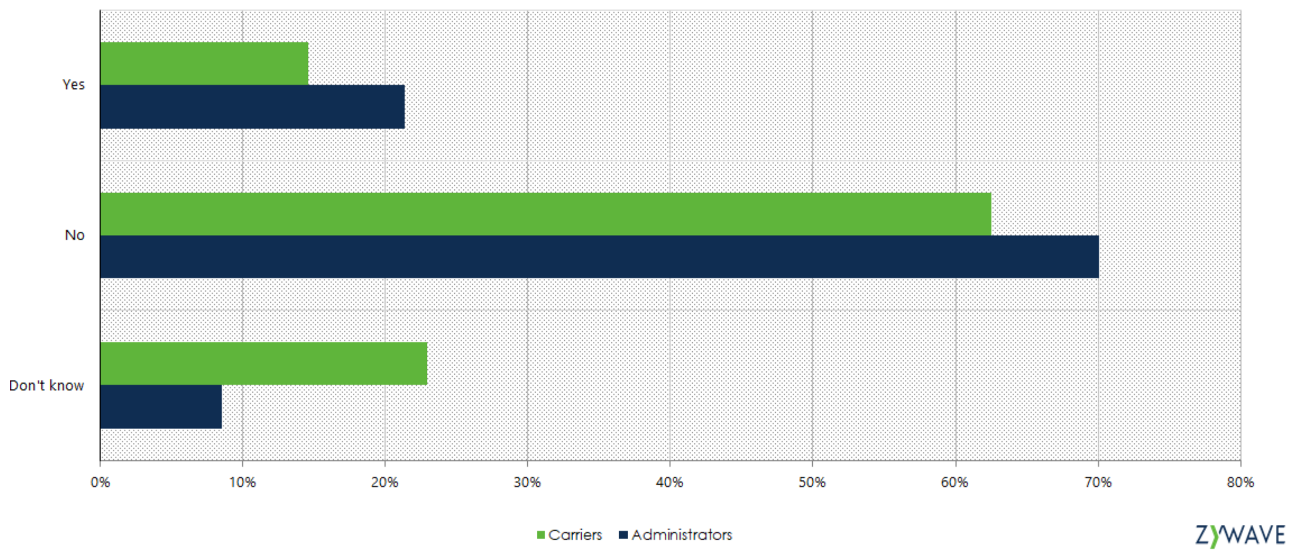
Those who said "no" among administrators climbed from 62% in 2020 to 70% in 2022. In the case of carriers, those who said that insurance technology is not causing them to consider a change in distribution went up from 48% to 63%.

There was not much change among administrators (7% in 2020 versus 9% 2022) and carriers (remained at 23%) who responded that they don't know.

Comments show mixed views among survey respondents when it comes to insurance technology and its impact on the program space. A number of administrators see insurtech as a threat. One respondent said, "The rapidly evolving landscape of insurance, including the emergence of insurtech companies and alternative distribution channels, poses a threat to program business. These disruptors may offer innovative solutions, agile processes, and cost-effective models, potentially impacting the market share of traditional program business. Staying ahead of these disruptive forces by embracing technology, fostering innovation and adapting business models is vital."

On the other side of the fence are those who view "technology improvements and increased digital distribution" as an opportunity. For a carrier respondent, "reducing costs via technology and distribution" is a key opportunity for the program business.

COMPARATIVE ANALYSIS: IMPACT OF INSURANCE TECHNOLOGY ON DISTRIBUTION



XI. Use of Data Analytics or Machine Learning

The past few years saw an increasing exploration and adoption of AI and machine learning across industries, including insurance. Insurance professionals are looking into automating the claims process using AI, streamlining insurance processes, generating insights from large data sets and supporting customer service.

In 2021, the Program Business Study observed a disconnect when it comes to views on program administrators' utilization of AI or machine learning. A greater number of administrators (53%) reported that they do not use AI compared to only 39% of carriers who said that their program administrators do not utilize AI.

The 2023 poll saw a shift, as responses are now in sync, with both groups reporting greater use for data analytics among administrators. The percentage of administrators who reported that they are not using AI declined from 53% in 2020 to 34% in 2022. Among carriers, the percentage who reported that their administrators do not utilize AI and machine learning also dropped from 39% in 2020 to 36% in 2022.

As with the previous survey, respondents appear to have greater use for AI in underwriting, followed by claims, administration and loss control. Administrators using the technology for underwriting rose from 29% in 2020 to 63% in 2022. Similarly, the percentage of carriers who reported that their administrators use AI in underwriting increased from 55% to 67%.

The percentage of administrators reporting AI utilization in the area of claims surged from 5% to 42%, while the percentage of carriers who said their administrators use AI in claims processing rose from 32% to 37%.
In the area of administration, the reported utilization of AI among administrators climbed from 8% to 31%. Carriers reporting AI use among their administrators also went up from 21% to 29%.

One administrator polled sees digital transformation as an opportunity for the program space. "The increasing digitization of insurance processes offers program business the opportunity to enhance operational efficiency, improve customer experience, and expand market reach. Embracing advanced technologies, such as AI, data analytics and automated underwriting, can streamline processes, enable faster policy issuance, and enhance risk assessment capabilities. By leveraging these digital advancements, program business can unlock new growth avenues and deliver enhanced value to clients."

Finally, the percentage of administrators reporting utilization of AI and machine learning in loss control rose from 6% to 21%. Similarly, carrier respondents reporting that their administrators use the technology for loss control climbed from 16% to 24%.

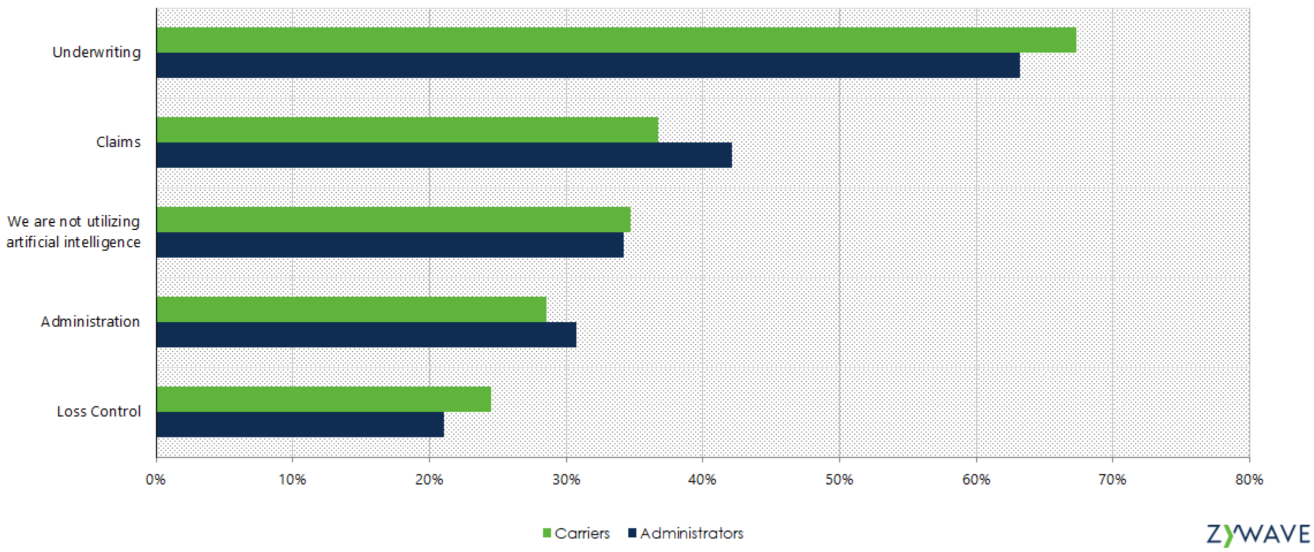
One administrator polled sees digital transformation as an opportunity for the program space. "The increasing digitization of insurance processes offers program business the opportunity to enhance operational efficiency, improve customer experience, and expand market reach. Embracing advanced technologies, such as AI, data analytics and automated underwriting, can streamline processes, enable faster policy issuance, and enhance risk assessment capabilities. By leveraging these digital advancements, program business can unlock new growth avenues and deliver enhanced value to clients."

“The integration of advanced technologies, such as AI, machine learning and automation, can enhance operational efficiency, improve risk assessment, and streamline processes,” another respondent commented. “Program administrators should invest in technology solutions that drive digital transformation and improve customer experiences while maintaining robust data security and privacy measures.”

Another administrator sees an opportunity in applied AI. “Practical implementations of machine learning and AI are advancing exponentially. Programs that capitalize on this actionable intelligence will outperform,” the administrator said. Another poll participant looks forward to the “creative usage of AI to identify niche opportunities.”

“The integration of advanced technologies, such as AI, machine learning and automation, can enhance operational efficiency, improve risk assessment, and streamline processes,” another respondent commented. “Program administrators should invest in technology solutions that drive digital transformation and improve customer experiences while maintaining robust data security and privacy measures.”

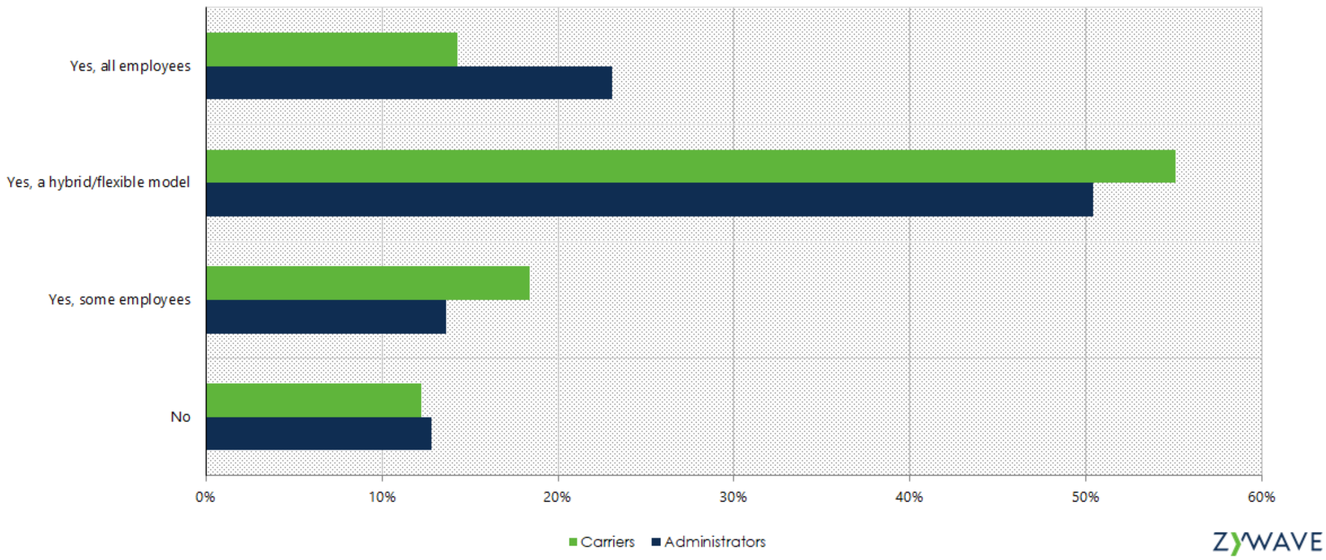
COMPARATIVE ANALYSIS: AREAS WHERE ADMINISTRATORS USE DATA ANALYTICS OR MACHINE LEARNING



XII. Remote Workplace

At the height of the pandemic in 2020, a greater number of administrators (56%) and carriers (63%) said they were looking at a hybrid or flexible work mode when the pandemic is over. Results of the 2023 poll show that this is just what they did in 2022; 55% of carriers and 50% of administrators say they are implementing a hybrid work mode. A greater percentage of administrators have all employees on remote work, while more carriers said only some of their employees are working from home.

COMPARATIVE ANALYSIS: HAS YOUR WORKFORCE GONE REMOTE?



XIII. Emerging Risks Suitable for Program Business

Top Responses: Emerging Risks in Program Business

ADMINISTRATORS	CARRIERS
Self-driving Auto	Parametric Coverage
Artificial Intelligence	Specie / Art
Drones	Pandemic Coverage
Cannabis	Artificial Intelligence
Climate Risk	SAM Coverage

Administrators have identified self-driving automobiles as the predominant emerging risk for the year 2023, closely followed by AI. One administrator elaborated, stating, "The increasing adoption of [AI] and machine learning technologies brings new risks and potential liabilities. Program business can offer specialized coverage for AI-related errors and omissions, data breaches and intellectual property infringements."

Notably, in the 2021 survey, AI did not emerge as a significant emerging risk, possibly attributed to its recent introduction.

In contrast, self-driving automobiles had only placed second in suitable emerging risk for 2021. COVID-19-related risks, which were previously identified as the most suitable emerging risk in 2021, garnered relatively low scores in perceived suitability this year, likely due to the reduced impact of the pandemic. Meanwhile, drone-related risks are consistently perceived as suitable emerging risks in both years. As remarked by an administrator, "Coverage requests for drone operations have increased."

> *"The evolving risk landscape presents new opportunities for program business," said one administrator polled. "As emerging risks such as cybersecurity, climate change and autonomous technologies continue to gain prominence, program business can develop specialized coverage solutions tailored to these emerging needs. By staying at the forefront of these trends and collaborating with industry experts, program business can seize opportunities to provide innovative and comprehensive coverage."*

Electric vehicles and robotics are notable additions to suitable risks. Conversely, parametric coverage has been observed to lack significance. Other emerging risks include wildfires, cannabis and cyber-related risks.

"The evolving risk landscape presents new opportunities for program business," said one administrator polled. "As emerging risks such as cybersecurity, climate change and autonomous technologies continue to gain prominence, program business can develop specialized coverage solutions tailored to these emerging needs. By staying at the forefront of these trends and collaborating with industry experts, program business can seize opportunities to provide innovative and comprehensive coverage."

Another commented, "Programs offer emerging risks a place to enter the market. Good program administrators and program carriers will be incubating some of these emerging risks."

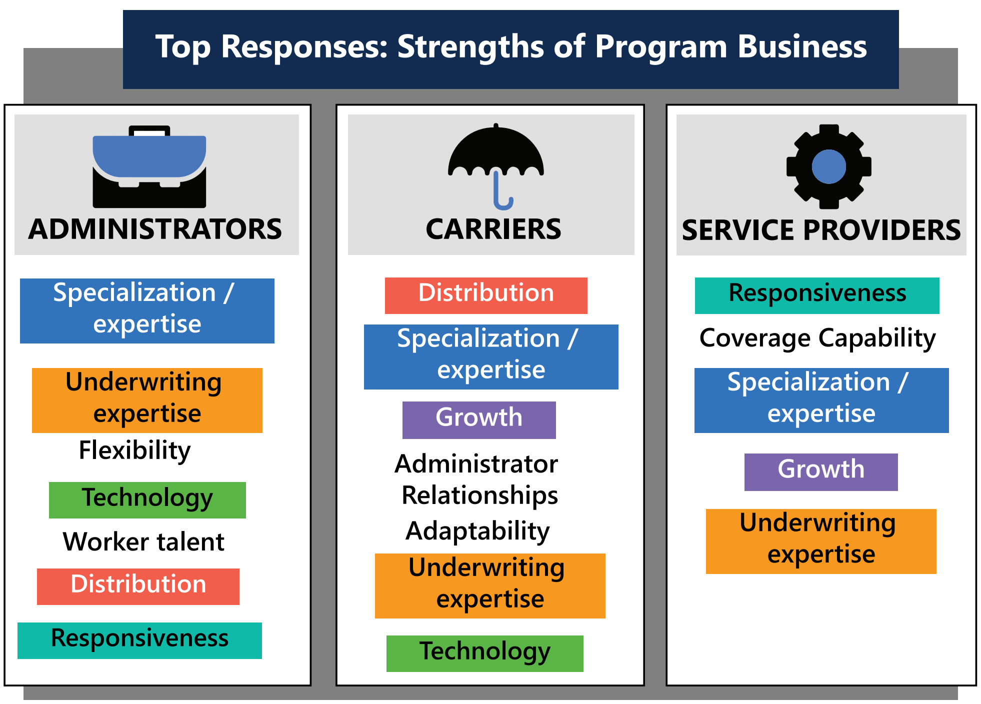
Carriers considered parametric coverages as the most suitable emerging risk. This is consistent with the 2021 survey results. Carrier's perception of emerging risks changed considerably. Previously highlighted concerns such as drones, COVID-19-related risks and telematics have vanished from the carrier's current perceptions.

Sentiments varied, but the most noteworthy were specie/art, AI, and sexual abuse and molestation (SAM) coverages, the latter being niche concerns, hence perceived with low importance.

Explaining why the SAM coverage is an emerging risk, a respondent noted: "Many programs are running without this coverage. It's needed in the market." Another respondent, who views AI technology as a risk for carriers, wrote: "The increased use of visual and AI technology will continue to transform the ultimate performance of program business."

On the other hand, "[a]nything the traditional carriers can't address should be considered an emerging risk," said another respondent.

XIV. Strengths and Weaknesses of Program Business



Administrator sentiments about the perceived strengths of the program business are notably consistent. For both the 2021 and 2023 surveys, specialization/expertise stood out as the highest-ranking strength, followed by underwriting expertise. Other strengths such as flexibility, technology, distribution, and responsiveness also appear in both surveys, indicating the continued effectiveness of the program business in these areas.

Efficiency and worker talent are significant additions to this year's findings, revealing improvements that the program business has undergone within a two-year span. On the other hand, service as a strength has diminished in importance in the current year, in stark contrast to its value in 2021.

Administrators stressed the importance of specialization/expertise, with one 2023 respondent noting how the program business "allows for a high degree of specialization and expertise in niche markets or specific industries. This focused approach enables insurance providers to develop deep knowledge of the risks and needs of the target market, allowing for tailored coverage and more accurate underwriting." A clear focus on expertise in underwriting is viewed as a vital strength, especially as "astute underwriters can still make a good profit," according to another respondent.

Flexibility, which administrators defined as the ability to take advantage of technology and move quickly to respond to market needs, is seen as important given how it "allows the insurance space to focus on profitable risks and to tailor appropriate coverage for [the] insured," explained a surveyed administrator.

The regard for worker talent grew remarkably, in parallel to the significant increase in the degree of talent the MGA space has enjoyed over the past decade. As earlier noted, administrators also consider the improved use of new technology and data analytics as a vital strength. Apart from the aforementioned, other perceived strengths are pricing, program space stability, creativity and coverage concerns.

While carriers also named specialization/expertise as their top-perceived strength in 2021, they interestingly placed more importance on the broad, open, and multifaceted distribution for this year's survey. Distribution now sits as the foremost strength identified by this demographic, with specialization/expertise placing second. Underwriting expertise and technology were the only strengths to have appeared in both iterations of the survey, apart from the aforementioned.

"Program business expands the market where gaps in capacity and opportunity exist with traditional direct placements," wrote a surveyed carrier. Trusted administrator relationships, particularly fortified by administrators' "deep knowledge and expertise," were another strength worth looking into. Carriers also valued adaptability to the market in spite of rapid changes.

Market growth was a notable new addition to this year's roster of strengths, as identified by carriers. "Program business expands the market where gaps in capacity and opportunity exist with traditional direct placements," wrote a surveyed carrier. Trusted administrator relationships, particularly fortified by administrators' "deep knowledge and expertise," were another strength worth looking into. Carriers also valued adaptability to the market in spite of rapid changes.

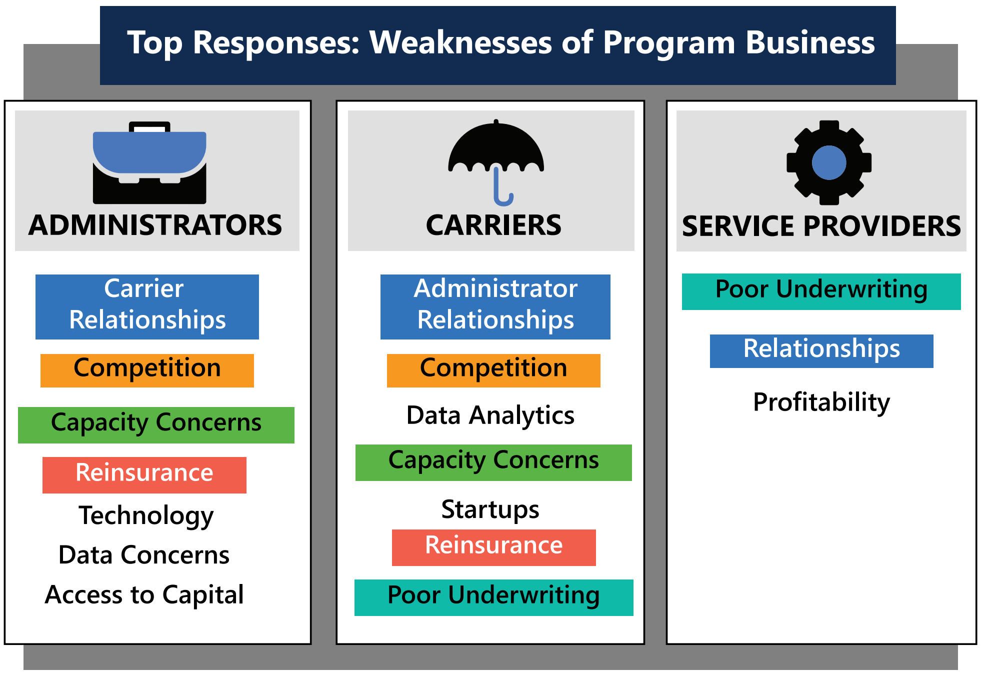
Sharing overlaps with administrators' sentiments, carriers noted underwriting expertise and worker talent to be of relative importance as well. "The opportunity to access and grant a third-party pen that has a strategic advantage and product expertise in [a] certain niche business … gives carriers an edge in underwriting and risk selection and ultimately results in profitable growth," said one surveyed carrier. Furthermore, worker talent is also viewed as a significant strength, with one respondent stating the provision of "a quality and competitive workers' compensation product has provided increased opportunities for us as program administrators look at expansion and diversification in industries served."

Few carriers also found value in consolidation as a main strength: "Programs are able to leverage a distribution model for carriers, which did not exist in this form previously. The ability to consolidate the functions of insurance while increasing the access to business has never been offered in such a dramatic way has never been offered."

On the other hand, market responsiveness was observed to be the principal strength among service providers. This is closely followed by coverage capability, which service providers also value. According to one respondent who identified both as key strengths, "The program business is highly solution-oriented, creative [and] entrepreneurial. It responds quickly to market changes. It is innovative. It creates capacity and coverage for unique lines of coverage."

"Continuous growth and opportunities for new markets" and specialization/expertise in the market niche also dominated service provider sentiments.

Overall, specialization/expertise and underwriting were placed relatively highly across all three respondent groups. For one surveyed service provider, "The intense focus in underwriting profitability [is] a real opportunity for entrepreneurial underwriters to provide a long-term capacity to their specialty distributors."



Carrier relationships have consistently been perceived as the primary weakness for administrators in both 2021 and 2023 surveys. According to a 2023 survey respondent, "MGUs [are] being pulled in so many directions. Copious amount of external auditing by carrier (on all lines)." Another noted that the issue is in the "dependence on carriers and/or capital that is not always in sync with MGA creativity, speed, and flexibility." Competition closely trailed as another significant factor as administrations find "difficulty [in] competing with the capacity available with traditional carriers."

Capacity concerns, costs, reinsurance and consolidation were also identified as weaknesses for both survey years. Regarding capacity concerns, one respondent found fault in the "reliance on capacity from traditional carriers and reinsurers that haven't adapted to changes in the industry," adding, "If there was an easier way to access capacity, the MGA market would boom." Another significant weakness observed was reinsurance, as "reinsurance markets don't understand the nuances of the niches and view them the same." The significance of reinsurance as a weakness was placed much higher for 2023. Conversely, cost as a weakness dropped in relevance for this year compared to 2021.

Although technology might have been perceived as a strength, it was also considered a weakness. An administrator looked to a “lack of technology investments” as a more specific aspect that posed a disadvantage. Notably, this year, consolidation was relatively more significant as a weakness.

Newly perceived weaknesses include data concerns, access to capital, regulation, hybrid carriers, and finding employees. An administrator saw access to capital to be a barrier in the program space, as “access to capital has put a grinding halt on qualified new programs and squeezed margins on current programs.” Regulation was said to “not contemplate general agent model well.” One administrator remarked, “Red tape.”

Only two areas were consistently identified as weaknesses for both the 2021 and 2023 surveys: capacity and data concerns. While data concerns garnered a similar level of sentiment with regard to its being a vulnerability, carriers’ worry about capacity concerns notably increased in 2023.

In terms of perceived weaknesses, the two surveys showed different results: In 2023, carriers identified competition, startups, hybrid carriers, reinsurance, underwriting issues, talent drain, and capital naivety as new vulnerabilities. But back in 2021, lack of alignment was thought to be the most significant weakness, closely followed by costs.

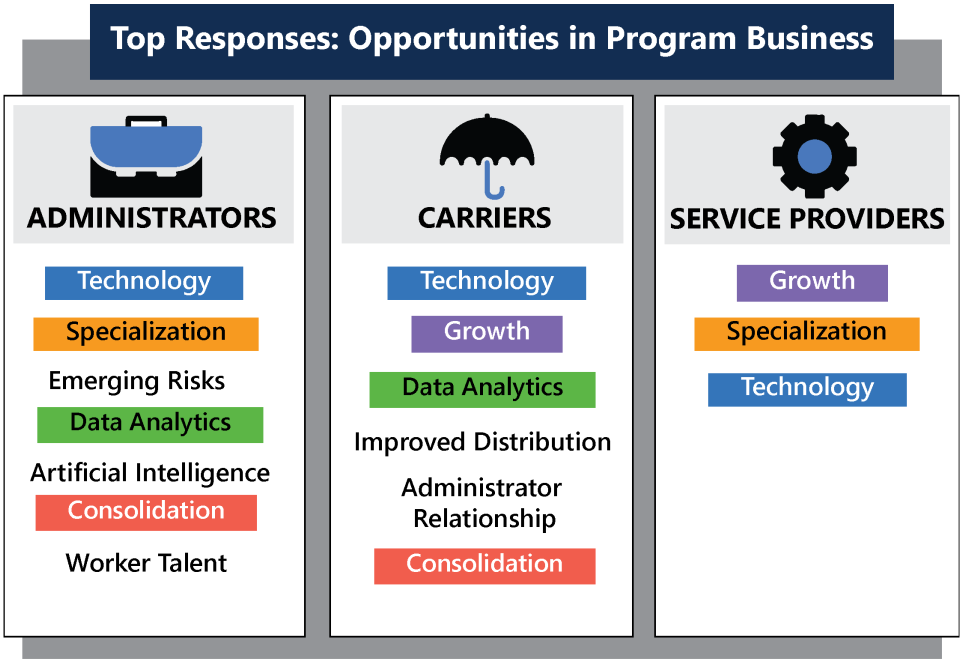
Carriers echoed administrators’ sentiments on weaknesses. Both groups identified competition, capacity concerns, reinsurance, hybrid carriers, technology, and a scarcity of talent within the program space as key vulnerabilities. One respondent articulated, “Number of startup programs and the influx of hybrid fronting paper that is adding competition and capacity to the marketplace. Data quality can still be an issue for program operations. Technology remains a problem as well in many pockets of the program space.”

Notably, technology, data and competition have consistently surfaced as perceived weaknesses since 2019. Regarding talent drain, a carrier remarked, “Tough to find specific talent to manage program business.” However, it is worth noting that carriers did not explicitly reference consolidation as a concern.

Administrator relationships, though seen as a strength, were also acknowledged by carriers as a significant weakness. One respondent remarked, “New MGAs and program administrators [have] threadbare staff, lack underwriting expertise and [have] no knowledge of the complexity of their role in the system.” Another emphasized, “There can be [a] misalignment of goals.”

Responses from service providers were diverse but still of equal significance. Notably, a service provider underscored that inconsistent underwriting is a key weakness, particularly having “no standardization in loss and underwriting data.” Another identified weakness was partnerships, for which a respondent remarked that so-called “legacy relationships.” Additionally, when “there are vendor partners in place because they have always been in place,” it can be problematic. Profitability was also viewed as a weakness due to having “small margins relative to carriers despite taking risks and working with some complex and niche needs without the deep pockets of a carrier.”

XV. Opportunities and Threats



In 2023, technology emerged as the primary opportunity noted by administrators. In contrast, the significance of consolidation and growth, which were prominent in 2021, decreased. Other recurring opportunities for both years included emerging risks, new/niche products, data analytics, specialization, consolidation and growth.

This year, administrators identified several new opportunities, such as AI, worker talent, embedded products, and streamlined processes. However, the importance of underwriting, insurtech and responsiveness has diminished. Both administrators and carriers highlighted the significance of technology as the most pronounced opportunity in their respective areas. The increasing digitization of insurance processes paves the way for program businesses to "enhance operational efficiency, improve customer experience, and expand market reach," noted one surveyed administrator. Advanced technologies such as AI, data analytics, and even automated underwriting can streamline processes and policy issuance, among other benefits. The respondent added: "By leveraging these digital advancements, program business can unlock new growth avenues and deliver enhanced value to clients."

Following the vein of advanced technologies, areas of opportunity surrounding data analytics and AI were also observed between both respondent groups. In particular, this year observed a notable interest in AI as a potential business opportunity.

Specifically for administrators, the use of AI and analytics may be best paired with the pursuit of new/niche products, which is another top opportunity identified by this respondent group. "Creative usage of AI to identify niche opportunities" and "continued and growing solutions for a marketplace … getting pulled in every direction, dealing with AI impact" are some of the sentiments collected from administrator-respondents, one of whom further explained that "programs that capitalize on this actionable intelligence will [outperform]" given the exponential growth of machine learning and its applications.

Administrators also see growth within the program space, particularly "expanding into related lines of business and partnering with other entities that can drive business into our existing programs or develop new ones."

> *According to a surveyed provider, the program business is fertile ground for change, mainly in terms of managing data and streamlining processes through automation of the bordereau, real-time monitoring of program data, a flexible management system, and "having the right provider with agility and innovation to match."*

As earlier stated, carriers noted technology to be the most prominent opportunity. "The next frontier is figuring out ways to leverage internal and external data to make better [decisions] on risks," said one respondent. "Programs and carriers [that] embrace technology and data will come out on top."

Carriers also put equal importance on growth and data analytics, with the latter as a likely means to foster and stabilize growth. Growth has constantly been placed as a significant opportunity sentiment for carriers. In contrast, data analytics was only perceived as an opportunity this year. One carrier surveyed wrote, "The increased utilization of technology and data analytics will drive disruption on traditional models, and we view that disruption as an opportunity to leverage our resources and team to [drive] profitable growth through the next five years."

Both carriers and administrators identified consolidation as another vital opportunity. However, it is viewed as significantly less relevant than it was in 2021. According to one surveyed carrier, "We expect to see the trend of consolidation in the program administrator space to provide us increased opportunities in our current markets, as well as provide us new opportunities with administrators that have acquired programs in spaces we don't currently write and can expand into."

Aside from the aforementioned opportunities, distribution holds particular importance in the present year as carriers observe improved distribution: "Multi-capacity provider towers and syndicates will help carriers and distribution partners diversify, develop optimal portfolio strategies and [stabilize] the fronting market. Most, if not all, of the above will create stability, which is critical to all parties to program agreements."

For service providers, growth in the overall program business serves as the largest opportunity for the majority. In particular, respondents were interested in exploring countrywide expansion and growth in carrier and MGA outsourcing needs.

The following program business opportunities enjoyed equal appreciation from service providers. New products are expected to cover new risks, with one respondent naming cryptocurrency and embedded insurance products as potential spaces to explore. Technology and automation share the same importance as areas of opportunity for service providers. According to a surveyed provider, the program business is fertile ground for change, mainly in terms of managing data and streamlining processes through automation of the bordereau, real-time monitoring of program data, a flexible management system, and "having the right provider with agility and innovation to match."

Top Responses: Threats to Program Business

ADMINISTRATORS	CARRIERS	SERVICE PROVIDERS
Capacity Concerns	Capacity Concerns	Market Uncertainty
Consolidation	Lack of Expertise	Lack of Profitability
Carrier Relationships	Lack of Profitability	Regulation
Competition	Reinsurance	Talent Drain
Reinsurance	Consolidation	Competition
Regulation	Saturation	Saturation
Technology	Poor Underwriting	Consolidation
Poor Underwriting	Hybrid Carriers	

The study gathered views on what respondents perceive as threats in the program business with respect to their fields. In 2021, carrier relationships were a significant perceived threat by administrators. In contrast, this year, both administrators and carriers noted capacity concerns as the most troubling threat, citing the scarcity of catastrophe bond capacity as a feature hurting the program.

Consolidation has been a prominent threat for both survey years. For this survey, administrators and carriers agreed that continued consolidation raises alarm. “The aggressive activity to buy or sponsor MGAs, MGUs and PAs is blurring the lines between distributors, insurers and reinsurers,” answered one carrier. “The ability of MGAs/MGUs to focus on growth through underwriting discipline will, therefore, be challenged in a more direct manner.”

Carrier relationships fell in relevance this year but remain a noteworthy threat to administrators. “Finding strategic and loyal carrier partners” has become difficult to maintain, shared one administrator. “The landscape of executives on the carrier side has changed. Relationship partnerships seem to be waning. Decisions seem to be made by a team, not an individual, and carriers are not pivoting when we need quick decisions and actions.”

Aside from the aforementioned threats prevalent in both the 2021 and 2023 surveys, other notable issues found are reinsurance, technology, disintermediation and talent drain. In particular, the perception of reinsurance as a threat has greatly increased. Administrators bemoan reinsurance rates and availability and the lack of additional reinsurance capacity.

Some newly perceived threats include inflation, poor underwriting, AI, insurtech and economic volatility. Competition is also viewed as a threat to program administrators, specifically the “overcrowding of startups becoming a distraction to brokers,” as well as the saturation of niche opportunities.

> *"Inexperienced and undisciplined carriers and program administrators with underpriced portfolios will fail. This will create opportunities but also long-term fallout, creating gaps and harming the public's perception of an already complex industry. This may force carriers to pull back from the space, threatening capacity and potentially harming program administrators who have done the job right."*

Administrators agree that despite the abundant opportunities that lay in technology and AI, both areas should also be viewed as threats. There is a growing worry about administrations being unequipped with the right products as fast-changing technologies typically "require 'outside of the box' coverages." Disintermediation through technology, as well as legal or regulatory involvement and the eventual commoditization of insurance products, were also mentioned as specific worries related to technology. As for AI specifically, its general usage by large, well-funded carriers with enough resources was noted as a threat, given how they compare with program administrators and "their ability to price risk based on the exposures." Both administrators and carriers also shared concerns regarding poor underwriting; however, it's not as notable in terms of perceived importance.

As for carriers, lack of capacity has risen as a predominant threat in 2023, as highlighted in the previous section. Closely trailing behind is the lack of expertise/history, which is proving to be a significant challenge. Respondents noted an overabundance of carriers without ample training and "discipline in due diligence, underwriting, claims and program oversight." One respondent wrote: "Inexperienced and undisciplined carriers and program administrators with underpriced portfolios will fail. This will create opportunities but also long-term fallout, creating gaps and harming the public's perception of an already complex industry. This may force carriers to pull back from the space, threatening capacity and potentially harming program administrators who have done the job right."

Similar to administrators, carriers observe AI as a threat. However, unlike administrators, carriers had already recognized AI as a threat back in 2021. Notably, one carrier highlighted the "need to be on top of AI as a tool." Another respondent specified ChatGPT.

Despite its relatively lower relevance in 2021, the lack of profitability is another significant threat noted by carriers as it causes further capacity restrictions. "More generalist carriers expanding their appetite into higher hazard grades, historically focused on by specialist programs, as a core business can drive pricing in higher hazard classes down," added a surveyed respondent.

For this year, carriers noted novel threats in reinsurance availability, saturation, hybrid carriers, naive entrants and negative market reputation.

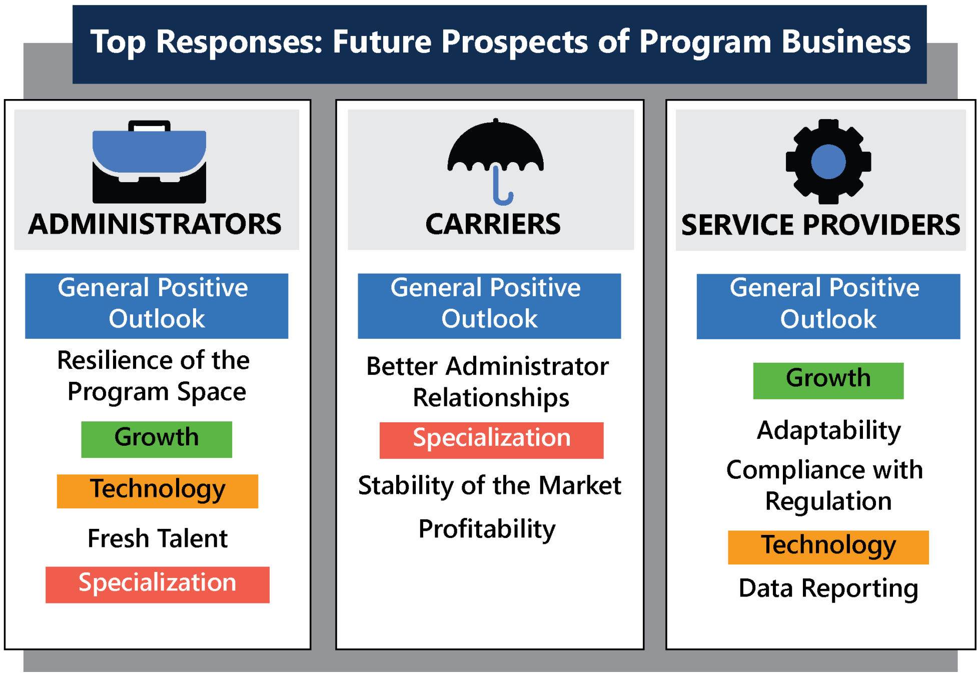
In the case of service providers, market uncertainty was observed as a significant threat. This uncertainty, as one respondent wrote, is closely linked to the political climate, specifically wars, discord between countries and other forms of conflict. "It's the effect these things have on market capacity and the ability to secure reinsurance that is most concerning," the respondent added. Such market uncertainty ties in with a lack of profitability, which is another threat identified by service providers. "There is a big risk of increased loss ratio … that loss ratio may increase with the increasing number of catastrophe claims and increased natural disasters."

Regulation is another big threat to service providers in the program business. Specific concerns covered "compliance with bureau products and state regulations" as well as "carrier pullback due to pricing and compliance from regulatory bodies for U/W and claims."

Talent drain, unfair competition, and partner willingness are also some of the top threats causing worry among service providers. On competition, one service provider noted: "Carriers can leverage new platforms to be able to distribute with fewer facilitators and proxies. On the other side, more brokers may become program managers, adding to higher competition and narrower margins." This possibility furthers the concern surrounding partner willingness, which is that "not enough program managers appear to be open to rating by AMB or similar independent rating agencies." Another respondent raised an important question: "As underwriters feel pressure on returns, will they be willing to take risks on new (unproven) programs/risks?"

Other threats noted by service providers are saturation, consolidation, access, explosive growth and negative customer satisfaction.

XVI. Future Prospects of the Program Administration Business



In both 2021 and 2023, administrators expressed a generally positive outlook for the program space, highlighting its resiliency. As one respondent optimistically remarked, "[the] future is bright!" Adding to the confidence, a respondent said, "Program administration business is here to stay for the long run." However, amid the optimism, caution was also observed. The program space is "healthy, strong but not without its challenges; however, aside from CAT, I don't see a serious disruption to the PA distribution model," said another respondent. There were also floating sentiments that the program space is "very positive, but [the] thinking [among stakeholders] needs to change/adapt."

Technology integration, program space resilience, specialization, growth and fresh talents were also given importance for both years. In particular, sentiments regarding the growth of the program space grew considerably as compared to 2021. An administrator commented: "It will continue to grow faster than the overall P&C industry, reflecting the worldwide business trend towards specialization."

Additionally, compared to the previous survey year, the prospect of fresh talent was also viewed more significantly. "It seems like a lot more folks are realizing how great program business is, so I think more talent/resources will continue to come into the space," said an administrator. In relation to growth, one respondent replied: "Expect continued growth via underwriting talent migration and consolidations to support infrastructure needed to be successful. [We] will expect growing interest for program capital to take underwriting risk."

Administrators also saw new prospects within automation, overcapacity, the addition of more programs and program administrator opportunities. According to one surveyed administrator, they "plan to continue to add programs and other services and products for existing programs."

Carriers share the same sentiments as administrators' predominantly positive outlook. This sentiment remains consistently promising for both 2021 and 2023. One surveyed carrier commented: "We are at the biggest and best time. Let's protect our programs [and] our risk takers." Another respondent shared the sentiment, describing the present as an "exciting business to be in at this moment." Similar to administrators, there is also caution in the optimism of carriers. "We (carriers and PAs) need to act responsibly to assure the stability of this segment by careful risk selection, prudent financial management, and training the next generation of [leaders]," a respondent shared.

Closely following the aforementioned is the prospect of better administrator relationships, a new finding that has surfaced only this year. A surveyed carrier emphasized that "the thriving conferences since the pandemic have underlined the importance of face-to-face meetings. This shows how important relationships are within the PA space and will enable successful partnerships into the future."

"The program administration business is an exciting industry to work in. It suits those who like to build things and help people. This business will only continue to grow."

Despite the optimism of the majority, some carriers perceive a general neutral outlook. As a carrier noted, "Depending on how well the new program business entrants perform, the momentum will either continue or slow down considerably. Risk appetite shifts among risk-takers who need to make a return on their equity."

Additionally, specialization has been a constant future prospect for both years. A respondent articulated this sentiment, noting: "The ability for folks with deep industry knowledge to have equity in the success which will drive growth in [the] program sector, leading to more program opportunities."

Carriers also saw the stability of the market and profitability as new future prospects. A carrier underscored these new findings: "Participants must consider profitability over growth or distribution channel as a whole will suffer."

In contrast to administrators, carrier sentiments this year no longer emphasize growth and the influx of fresh talent.

Service providers have a generally positive outlook and emphasize continued growth. As one service provider aptly remarked, "The program administration business is an exciting industry to work in. It suits those who like to build things and help people. This business will only continue to grow." Another echoed the sentiment, labeling it the "greatest growth opportunity in the industry." Another shared expectations for "[a] very bright future with oncoming threats due to the growth."

Service providers also recognized adaptability, regulatory policy compliance, data reporting, new markets/coverages, technological aid and new programs as future prospects. In particular, a service provider shared that technological aid and larger organizations' willingness to change will drive the evolution of the program business. "Regulatory policy compliance and data reporting will continue to be [the] keys as clean, usable data will be so important as the market continues to grow," a service provider added.

Survey Summary and Conclusions

The past decade has witnessed exponential growth in the program space. This year's survey results indicate the continued success and relevance of the program model.

Not surprisingly, administrators, insurers and service providers are optimistic about the sector's future, as it remains a bright spot in the property/casualty insurance market.

While celebrating the sector's wins, administrators and carriers recognize that the program space's future is both promising and challenging. "Still very excited and bullish towards our future, but working harder than ever before," is how one administrator looks at it.

An analysis of the program administration industry's strengths shows that program business' niche expertise, distribution efficiencies and versatility continue to make it an attractive mode of distribution. However, it needs to address several weaknesses, including gaps in data and analytics, lack of underwriting expertise, increasing competition and lack of data standards.

"Still very excited and bullish towards our future, but working harder than ever before," is how one administrator looks at it.

Administrators and carriers polled are in agreement that if program business is to sustain its growth, the onus is on administrators to embrace the call for integration of AI, machine learning and other advanced technologies needed to boost operational efficiency.

Reexamining efforts to improve underwriting expertise, pushing for greater differentiation, continuously identifying emerging risks and strengthening partnerships are also crucial for the industry to continue to flourish.

The TMPAA State of Program Business Study 2023 is the ninth in a series of surveys of program administrators and carriers to track trends in the program business.

The TMPAA, Zywave, Allianz, Amwins Underwriting, Aon, Doxa Insurance Holdings, Homesite Underwriting Managers (HUM), K2 Insurance Services, Mystic Capital, and Vertafore anticipate that continued strong support for the survey will result in a valuable, biannually updated tool that will provide TMPAA members the information they need to make better-informed business decisions.

ORGANIZERS

About TMPAA

The Target Markets Program Administrators Association is an organization dedicated to the unique challenges of insurance program administration. The TMPAA's mission is to help program administrators conduct their business more efficiently, with greater proficiency and profitability. The organization provides its membership with an array of business and educational services, including access to program carrier decision-makers, best practice information and recognition, Target University, Program Marketing and Distribution, Target Programs (online portal), Industry Studies and two annual Member Meetings. www.targetmkts.com

About Zywave

Zywave leads the insurtech industry, fueling business growth for its partners with cloud-based sales management, client delivery, content and analytics solutions. Zywave's all-in-one platform provides customizable, user-friendly options that enable insurance professionals to build a unique solution to fit their specific growth goals—their own Modern RevOps Machine. More than 15,000 insurers, agencies and brokerages worldwide—including all of the top 100 U.S. insurance brokerages—use Zywave solutions to enhance client services, achieve business growth and promote greater health, wellness, risk management and safety. Additional information can be found at www.zywave.com.

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Company Description

Allianz is one of the world's leading insurers for corporate and specialty risks. We offer our clients and brokers specialist local coverage while giving access to the full international Allianz Group network comprised of close to 200 countries and territories. In North America, we can provide unique end-to-end risk solutions for several lines, including property, casualty, aviation, energy, marine, entertainment, financial lines and mid-corporate risks, as well as international insurance programs. We offer a wide variety of programs with comprehensive coverages and solutions across many of our products. Our combined expertise, global reach and superior network make Allianz an industry leader in providing first-class customized programs and risk management services to corporate clients and mid-sized businesses with complex and specialized needs.

Program Business Strategy

Allianz has a broad underwriting and risk appetite with admitted and non-admitted solutions. Minimum premium varies depending on risk and coverage solutions needed.

We partner with Programs Administrators who have deep underwriting expertise in specific segments or class of business; and have the technology platform and resources to manage the end to end processing and servicing of the business.

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UNDERWRITING

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Company Description

The underwriting division of Amwins serves as an MGA/MGU for 100+ niche property, casualty, professional lines, and workers' compensation programs. The division underwrites over $3 billion in annual placements across 40 office locations supported by over 275 industry professionals. At Amwins Underwriting, we recognize that not all business risk is created equal. That's why we've dedicated our division to niche industries, creating a team of specialists who understand the nuances of the market they support.

Program Business Strategy

Our goal is simple: Develop underwriting programs that fill complex needs within the marketplace while delivering a level of service and expertise that stands out from the crowd. We strive to complete this mission through the transparency of our data-backed coverage offerings and provider-aligned incentives, efficient solutions offered by our array of programs and robust distribution network, and the expertise of our industry-specific underwriters that pave the way to forming long-standing relationships with carrier partners.

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Company Description

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries and sovereignties with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their businesses.

Program Business Strategy

Aon's Reinsurance Solutions team delivers reinsurance placement strategies for effective risk transfer to protect insurers and their balance sheets against financial volatility. Reinsurance is an efficient and effective way insurers can improve capitalization and is very flexible compared to other forms of capital. Aon's MGA Specialty team puts this into practice for the benefit of program administrators through program-specific placements to support the growth and profitability of Target Markets members, both program administrators and program carriers.

SPONSOR: DOXA INSURANCE

DOXA
INSURANCE HOLDINGS

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Company Description

DOXA Insurance Holdings is a Midwest-domiciled holding company that acquires specialty niche-focused insurance distribution companies such as managing general agencies, wholesale brokers, and program administrators. DOXA focuses on assisting proprietors through a strategic, reengineered approach to succession planning and organizational sustainability. DOXA's founders are experienced insurance executives with credentials in the niche and specialty insurance market.

Program Business Strategy

DOXA looks to attract commercial P&C-focused businesses with niche underwriting expertise, a track record of success, name-brand recognition and strong leadership.

SPONSOR: HOMESITE UNDERWRITING MANAGERS

HUM
Homesite Underwriting Managers

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Company Description

Homesite Underwriting Managers LLC (HUM) is the strategic business unit of the AmFam Group that focuses on program administrators, which was launched in 2019. The unit is led by President Grace Meek, Chief Risk Officer Claudia Carnevale and Chief Casualty Officer Carl Lythcott. It is based in Holmdel, New Jersey. HUM seeks to partner with market-leading PAs to form long-term, mutually beneficial relationships. By expanding AmFam's footprint into the PA space, we are rounding out our distribution and product offerings and will look to leverage enterprise distribution channels where applicable. We focus on a broad spectrum of insurance risks in both personal and commercial lines.

Program Business Strategy

HUM seeks to partner with specialty PAs that demonstrate a passion for their business, an alignment of interests for profitability and, most importantly, exhibit a differentiator in their space. We are not simply capital but look to bring value to our partners with underwriting expertise, financial strength and an entrepreneurial mindset towards responsible growth.

We understand programs; our senior staff have been in the space for about 30 years. We believe in transparency and fairness—we look to find solutions instead of simply saying no.

SPONSOR: K2 INSURANCE SERVICES

K2
INSURANCE SERVICES

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Company Description

Our purpose is to create a leading specialty insurance services company through select acquisitions. Our goal is to distribute innovative products through retail and wholesale distribution channels.

Program Business Strategy

K2 wants to meet program managers and underwriters at the intersection of knowledge, entrepreneurial spirit and integrity. Our focus is primarily on noncommoditized, specialty lines of business where know-how and expertise can produce meaningful, growing and sustainable underwriting alpha for our carrier partners. Our strategy puts a deep emphasis on underwriting profitability, and we seek partners with a similar mindset and approach to the business.

SPONSOR: MYSTIC CAPITAL

MYSTIC CAPITAL
ADVISORS GROUP, LLC

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Company Description

Mystic Capital is a global investment banking and strategic financial advisory firm with offices in New York, London, Miami, Charlotte and Denver. We provide a wide array of world-class investment banking and strategic financial advisory services to the insurance industry.

We believe no other firm offers a higher set of skills, expertise and advice for leading insurance industry decision-makers.

Program Business Strategy

Across 22 years of service and over a thousand transactions under our belt, we developed a reputation as the preeminent advisor to specialty program administrators and wholesalers. We are drawn to niche platforms that inherently demand differentiated thinking.

VERTAFORE

Vertafore

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Company Description

As North America's InsurTech leader for more than 50 years, Vertafore is modernizing and simplifying the insurance life cycle so that our customers can focus on what matters most. Vertafore's solutions provide end-to-end connectivity across the distribution channel, improve the client and agent experience, unlock the power of data, and streamline essential workflows to drive efficiency, productivity and profitability for independent agencies, MGAs and carriers.

Program Business Strategy

Vertafore delivers purpose-built, integrated technology to simplify and automate the entire policy lifecycle for MGA, MGU, and program administrators. Our systems are designed to cater to your complex underwriting, lines of business, and distribution models so you can streamline all your core functions. Vertafore's robust technology offerings enable you to introduce new programs quickly, so you have the freedom to drive innovation in insurance.

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