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Guy Carpenter's Annual Survey of Specialty Insurance Program Issuing Carriers Shows a Steady Market

Outlook Remains Upbeat, Despite Financial Crisis

New York, October 7, 2009

Guy Carpenter & Company, LLC today published the results of its fifth annual survey of specialty insurance program issuing carriers. According to the survey, the program administrators and managing general agents (PA/MGA) market showed little change from 2008 to 2009, despite the global financial crisis. Though the number of respondents perceiving a growing market has declined, the market outlook generally remains upbeat, considering the tumultuous market conditions.

MARKET SIZE, DYNAMICS

The vast majority of respondents continue to perceive the PA/MGA market to be large.

- Seventy-six percent estimate the total PA/MGA market to be at least USD20 billion in GWP (down from 92 percent in 2008). 27 percent selected a range of USD20 billion to USD30 billion, while 29 percent estimated the market at USD30 billion to USD40 billion.
- Twenty-one percent believe that the PA/MGA market generates GWP in excess of USD40 billion. 24 percent believe the PA/MGA market generates less than USD20 billion in GWP, up from 8 percent in 2008.
- Nearly half of all respondents – 46 percent – felt that the PA/MGA market would remain flat, with 37 percent forecasting growth and 17 percent anticipating some contraction. (In the 2008 survey, 32 percent believed it was flat, 56 percent thought the PA/MGA market was growing and 12 percent though it would shrink.)

PROFITABILITY

Profitability perceptions remain unchanged, with 92 percent of respondents estimating a combined ratio for the market of between 90 and 100 percent. Forty-nine percent put the market at 90 percent to 95 percent, down from 68 percent last year.

BUSINESS CHALLENGES

Market conditions have reshaped the challenges that MGAs are facing.

- Only 67 percent of respondents view new business production as a challenge, down from 77 percent in 2008.
- Concern about premium growth also declined, slipping from 66 percent last year to 58 percent this year.
- Maintaining current rate levels, however, is perceived as being more challenging, with 61 percent of respondents citing it this year, compared to 58 percent in 2008.

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PROGRAM APPETITE, SIZE

The 2009 survey results suggest growth potential, with interest in programs of almost all sizes.

- Eight percent of respondents are targeting programs with GWP below USD5 million, equal to last year, though only 6 percent are seeking programs greater than USD20 million in GWP (half the 2008 amount). The remaining 86 percent seek program sizes between the two extremes.
- For commercial lines, PAs/MGAs remain focused on growing business across a number of lines, especially inland marine, property and auto liability, though professional liability interest did climb in this year’s survey. General liability also surged. Umbrella liability, which grew from 26 percent in 2007 to 62 percent in 2008, remained relatively stable at 61 percent in 2009.
- For personal lines, only 21 percent of respondents expressed an interested in growing business in the homeowners segment, back to 2007 levels after jumping to 31 percent last year. Auto remains at 16 percent, virtually unchanged from last year, and personal umbrella fell by half to 8 percent.

OPERATING PLATFORMS, AUDITING

Carriers remain flexible about the services that PAs/MGAs provide, including system use and claim handling. Ninety-five percent of respondents expect the PA/MGA to underwrite, rate, quote and bind the business, as well as issue and service policies – an increase of 15 percent from 2008. Loss control and premium audit services remain important to some carriers, but are roughly unchanged year-over-year. Respondents also continue to have robust auditing procedures in place to monitor results and control the processes involved in working with PAs/MGAs.

REINSURANCE PURCHASING

- Reinsurance continues to play an important role for program issuing carriers, with 37 percent working with reinsurance intermediaries and 63 percent utilizing a combination of intermediaries and direct reinsurers. This represents a substantial shift from 2008, in which 83 percent used both intermediaries and direct reinsurers.
- Structural preferences for reinsurance purchasing also changed, with 33 percent of respondents preferring quota share, down from 50 percent in 2008. Excess of loss grew from 50 percent last year to 67 percent in 2009.
- According to the survey, MGAs are somewhat less willing to compensate reinsurance intermediaries when program-specific reinsurance is not purchased, with 18 percent saying they would not be willing to either pay a finders fee or increase MGA commissions. Forty-eight percent would be willing to pay a finders fee (down from 69 percent in 2008), while 45 percent would increase the MGA commission to pay the intermediary (up from 31 percent).

QUOTE

John Barrows, Program Manager Solutions Specialty Practice, Guy Carpenter

“Despite the most severe financial crisis in 70 years, the outlook for the PA/MGA market remains remarkably positive. Though the perception of overall market size has declined somewhat, there is still strong interest in growing programs of all sizes, across both commercial and personal lines. This remains a buyers’ market, but the ability to develop new business while maintaining rate levels remains critical.”

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TAGS/KEYWORDS
Guy Carpenter, specialty insurance, program administrators, managing general agents, MGA, issuing carrier, survey, reinsurance

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