

BEST'S REVIEW

Successful MGAs Offer Added Value to Carriers

by Richard W. Dorman

The insurance industry's most successful managing general agencies are having their best results in history. This comes despite the fact that local policy issuance and distribution are less important since companies can provide those services on a countrywide basis from nearly any location.

Although insurers have the resources and technology to handle local product distribution on their own, managing general agencies continue to prosper by providing the added value that more than offsets their expense to carriers. The major advantages of general agencies continue to be their knowledge of the local market, specific understanding of specialty products and the ability to more efficiently deal with small producers. The successful general agencies are consistently evolving, changing and improving their capabilities and setting themselves apart from the capabilities of companies.

This is particularly encouraging in an industry that has traditionally been slow to change and where "we've always done it this way" seems to be a motto. The ways that the top MGAs have achieved success can be

specified and provide a road map for future success by others.

One of the most vital aspects common to successful MGAs is that they are not merely distributors. They have become an extension of the insurance company, and the best have learned to think and act as if they were the company.

This change in approach includes reducing the historical conflict between commission income and underwriting profit. While no respectable general agency would knowingly accept unprofitable business, the commission income structure has created a natural inclination and pressure to do so. Reducing up-front commissions and increasing compensation through contingency programs based on the underwriting profitability of the specific products is mutually advantageous for both parties. The increased emphasis on contingency programs also has fostered more long-term relationships between companies and GAs and has increased the focus on writing business that is ultimately profitable even when it may work against short-term revenue opportunities.

As an extension of the company, the historical approach to providing distribution to many markets offering the same product lines has changed. Both companies and GAs are moving more toward exclusive and/or limited

relationships in which the GA represents less competitors and the company uses fewer distribution alternatives. This quid pro quo is still in flux. The most successful situations are those in which the relationship is strongest and the insurance company and the general agency work as a team with the same basic goals. When GAs represent multiple companies for the same product, the best results are produced when opportunities for adverse selection are eliminated and producers can either select from all companies for any risk, or the general agency assigns the risks to various markets on a non-discriminatory basis such as alphabet or date of receipt. This prevents a situation in which one or even all of the markets suffer through selection, diminished volume or from having to share insufficient resources.

Successful MGAs also learn to look for the profitable business segments through an increased understanding of the market and the competition. Industry leaders analyze the business from all aspects, determine where the best opportunities exist and act to take advantage of this knowledge. The best MGAs serve as the eyes and ears of their companies, regularly providing competitive research and product analysis, as well as recommendations to improve profitability.

Pressure to reduce expenses is at an all-time high in the industry. Low expense companies will clearly win in the future. The industry has effectively lowered expenses, but it must continue to improve the basic commission concept since the flat commission layer historically used in retail and GA relationships can work against this thrust and eliminates many benefits gained through economies of scale. Successful GAs contribute to this expense reduction through alternative compensation

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arrangements such as sliding scales, contingency agreements or other creative concepts. In addition, they provide as many of the company services as possible to justify the costs and to reduce the duplication of expenses at the company home offices.

The insurance business is all numbers. Current computer technology allows analysis of nearly every possible combination of features regarding policies, the business and loss behavior. The most successful insurers today have achieved positive results due to their commitment to develop, use and understand data. Often, companies that have chosen to use general agencies have not made their own investments in these areas: They have relied heavily on the MGA to provide this information. Significant improvements in technology now make an appropriate investment achievable and affordable to even the smaller general agencies. The most effective general agencies make the investment in the technology and develop the human resources necessary to understand, analyze and use the information. These informational capabilities have been provided in: pricing data, including premium and losses, frequency, severity and loss cost information to allow proper identification of appropriate segments and determine adequate prices for all risks and classes of business; marketing information, including producer data on mix of business, renewal penetration and product profitability; and competitive information, including understanding of various pricing and marketing systems, competitors' strengths and weaknesses and the methods by which the MGAs' market can take advantage of them.

The industry is changing in ways far beyond the use of data and informa-

tion. The techniques used for managing the products are improving and evolving from the traditional dichotomy between underwriting and marketing to a combined approach of product management. Where the historical approach frequently created conflict between marketing and underwriting, the new style involves a cooperative effort to understand and seek the profitable.

The successful general agencies have evolved with the business, redirecting their emphasis more toward product development and product management. Many MGAs embrace the concept of a product manager to develop, market and oversee individual lines of business. This is another way that top MGAs can provide value to their markets. Their closeness to the local market and frequent specific product knowledge are keys to the future. This traditional base of information is being supplemented with a conscious and specific approach to the products themselves. The wise use of statistical data provides the MGAs with a wealth of information about the products and the market. The strong general agencies have learned that the data is not useful unless it is reviewed, studied and used for decision-making. They have developed the capability to study the market and product to make key decisions relating to the profitable pricing, distribution and underwriting. The technology of price distribution through comparative raters and computer-based rating devices makes the changes in the competitive position more frequent and sudden. A general agent who stays on top of the marketplace and the changes as they happen by providing the information to the company is a tremendous asset to its markets. The statistical data coupled

with the MGAs' local advantage is proving to be the combination that makes the MGAs vital to insurers.

Technology has allowed vast improvements in policy and payment processing. Leading general agents use these opportunities to provide the same quality systems and capabilities that the larger direct writers are now able to provide. The differences between good and inadequate systems are easily apparent to retail agents and policyholders. Since products often have similar premiums, service can make the difference. While this is apparent in policy issuance matters, it is more evident in the area of payment options. The industry has changed from one in which premium financing was the leader to one in which direct bill is the key buzzword. MGAs that have provided this capability have kept up with the trend. While this may not be easy for MGAs since the direct bill option eliminates the lucrative source of additional revenue and profit provided by a premium finance operation, they recognize this is a key requirement for future success.

General agents have a valuable role in today's insurance industry. Since a large percentage of companies have chosen to rely on MGAs as their primary or sole source of distribution and processing, the future will continue to hold opportunity. The industry is undergoing several changes due to the availability of technology, a consumer-driven focus on expense reduction and a vital need to effectively manage the products and pricing to ensure underwriting profit. The most successful MGAs are active and key participants in this marketplace because they change and improve along with the companies they represent. ■