Beyond the Text Podcast

December 2024

Vertafore Podcast

Beyond the Text is a Conning podcast that features insights from its Insurance Research Department. Hosted by Alyssa Gittleman, a Director and Head of Consulting and Customer Operations for Conning Insurance Research. Alyssa will invite analysts and guests to provide insights on recent publications and emerging industry trends.

Beyond the Text is intended to provide just that: going beyond Conning's typical research. Conning's analysts have deep industry knowledge and come from various backgrounds providing a greater level of context on industry trends for insurance professionals.

[Opening Music]

Alyssa Gittleman (AG)

Hello and welcome to Beyond the Text, a Conning podcast featuring insights from our Insurance Research department. I'm your host, Alyssa Gittleman, a Director and Head of Consulting and Customer Operations here at Conning. Join me as I welcome analysts and guests to provide insights on recent publications and emerging industry trends. Today I'm here with Lauryn Kothavale, a Vice President here at Conning and the author of our MGA report, along with our first outside guest, Kelly Maheu, a Vice President of Industry Solutions at Vertafore. Thank you both for joining me today. Vertafore and Conning recently teamed up combining Conning's extensive research and deep understanding of the MGA market with Vertafore's expertise in cutting-edge insurance technology.

Together they wrote "Tech Power: How MGAs are Shaping the Future of Insurance," and together they were able to provide a more comprehensive analysis of how MGAs are leveraging tech to embrace operations, drive innovation and meet evolving industry demands. This report is available to read on the Conning website for those that are interested in learning more after the session today.

Let's just jump in. It's no surprise that we're recording another episode around technology as it truly is redefining the insurance industry. Could you spend some time highlighting how MGAs have embraced technology and where they fit into the mix?

Lauryn Kothavale (LK)

Sure, MGAs are really stepping up their game with how they're using technology. It's exciting to see how it's transforming the industry. It's not just about running operations efficiently, but it's about using technology as a real game-changer to gain a competitive edge in a market that's constantly shifting. And what's really interesting at the executive level is the conversation has shifted. It's no longer about whether to invest in technology, but it's about figuring out the smartest way to do it. Technology is making a huge difference in so many areas.

For starters, it's improving underwriting outcomes by tapping into real-time data and advanced analytics. It's also streamlining operations, making processes smarter and more efficient and maybe, most importantly, it's giving

MGAs the agility to respond quickly when the market changes, something that's really crucial in today's environment. And technology is really driving innovation for MGAs, enabling the tailored solution for the niche markets, enhancing the experiences for customers and brokers and accelerating product launches. In 2023, MGA saw a 13% growth in premiums, underscoring the demand of their offerings. The overall P&C industry was at 10%, so the growth in the MGA market is significantly higher than the P&C market.

Kelly Maheu (KM)

I would add, from Vertafore's perspective, we see all kinds of MGAs all the time across the country that we work with and provide solutions for. And what we've seen is that their approach and experiences with technology varies pretty widely, but most MGAs do use tech for a common set of functions: policy, admin, accounting, claims rating and quoting, data analysis and customer management. Where we see the difference is how they assemble this portfolio of solutions. But most MGAs do fall into one of three primary models and how they build that foundation of their tech infrastructure. I'm going to go through those three quickly today.

So, we have those who leverage the carrier system. That's going to be most common with affiliated MGAs because they are owned by or closely associated with a carrier. They typically have their business processes tightly intertwined with that carrier and they may rely on them to perform their core functions. Now the biggest challenge with this model is that these carrier systems are built for more than most MGAs require. They're typically more complex, they're fixed in their functionality, and that can be challenging for MGAs. They really need flexibility to quickly pivot and adapt.

Then we also have those MGAs who leverage an AMS (Agency Management System). We see this model most often with the MGAs who are an offshoot of a larger, more diversified agency or a subsidiary. And this can work pretty well for a lot of MGAs. For example, an MGA knows that they just want to focus on one or two lines of business. Where we see the problem with this is that if they want to launch additional programs, most agency systems just can't handle that. And between those unique rating needs and level reporting that the carriers and regulators require, you know the typical AMS is just not a fit for the MGA.

So, while there certainly will be some cost savings from repurposing an existing system for MGAs who have that longer-term growth goal. They typically find that upfront savings are quickly overcome because of other expenses down the road. And then lastly, we have those MGAs who use that focused core system and tech stack. Now these MGAs, they'll anchor their tech stack on a highly configurable policy admin system to support the unique needs, the niche products and the specific distribution models of the MGA. And once that admin system is in place, then the MGAs can use APIs (Application Programming Interface) and integrations to add other solutions for rating third-party data, etc.

And then beyond the policy admin system, we see MGAs increasingly leveraging sophisticated tools, data analytics platforms, automated underwriting engines and integration hubs. And these are really embracing a tech revolution, and we're seeing so much innovation.

There's one or two other things I wanted to touch on because you can't leave out AI and machine learning. True game-changers, I can't stress this enough. We're seeing MGAs use these in so many ways to streamline underwriting, for claims processing and for fraud detection, just as a few examples. And with machine learning, these algorithms can analyze vast datasets and it's pretty advanced stuff when it comes to identifying trends and making more accurate predictions. Very valuable for the MGA.

Cybersecurity. Another thing that's a top priority seeing MGAs and the entire industry investing more in these advanced security solutions to protect data and prevent breaches.

AG

Great. Thank you so much. And I was hoping that both of you could maybe spend a little bit of time going into how MGAs are using this technology to differentiate themselves.

LK

I would start off by saying speed to market is probably the most important. MGAs can get new programs up and running in a matter of months, most aiming to launch within six months.

This kind of agility makes them invaluable partners for carriers looking to quickly break into emerging markets. However, launching new programs isn't always a straight path. Programs often need adjustments after launch or in response to shifting market conditions, and that's where the flexible technology comes in. MGAs rely on systems that are not only quick to set up, but capable of adapting rapidly.

Kelly, did you want to touch on the Workbench?

KM

Yeah, there's a couple of things you said. The underwriter workbench and the agent portal: these are both key differentiators we've seen lately. And MGAs who are actively investing in technology are using these to help improve customer experience.

Agents, like their clients, expect real-time experience with their partners, so they're increasingly adding these portals that allow direct customer interaction and that benefits both the MGAs and the retail broker by facilitating the real-time data exchange and reducing that manual and duplicate data entry. In my opinion, at a minimum, a good portal will integrate with the MGA's policy admin system and should allow the agent to submit applications and view statuses of pending business. In addition, MGAs can benefit from white-label portals that allow them to add their own branding into the portal and that helps to drive visibility and brand affinity among the MGAs' customers.

Another significant trend we've seen is the rise of the underwriting workbench, like aggregating third-party data and other information that underwriters typically use into one consolidated platform. MGAs help accelerate and automate the process, identifying risk, producing quotes you can issue, issue faster declines, provide answers and all together be a better partner for retail agents. And those MGAs who we see winning today are using tech in at least two ways, one to improve underwriting and two, to deliver a better customer experience. I call these the non-negotiable investments as we go into 2025.

AG

Wow, thank you. And just from what I've heard, MGA partners seem to be such an important consideration when selecting these core technologies. Could you provide some insights here?

KM

Sure. I want to emphasize every MGA is unique, so each is going to leverage a different approach to building their tech infrastructure. But at the end of the day, there are a few common goals. They want to increase operational efficiency, improve operational efficiency, enhance customer experiences and have faster speed to market. So when choosing technology from the right partner, it's crucial that MGAs find a partner who's committed to ongoing support,

rapid response to change and continuous innovation. You want to start with an evaluation first and foremost of your organization's growth plan.

Also, what is the level of flexibility needed to accommodate that growth? Most MGAs plan to scale. You're going to want a few things. You want to be able to accommodate any line of business, to accommodate quick changes to variables, to have data integrations with third-party sources, and to have the data to satisfy reporting needs and business requirements such as your licensing, credentialing and tax information. Finally, program variable data required to price risk, such as tailored underwriting guidelines, policy limits, federal and state DUI requirements, codes and exclusions. And we want to have a solution that helps to manage the entire policy life cycle from quoting to workflows to policy issuance.

Obviously, in most cases, you're going to want to look for a system that is built specifically for MGAs and that accounts for implementation time. MGAs will move so fast, faster than any segment of the insurance distribution channel. They need a partner, a system and a system implementation that works just as fast. Finally, they're going to want to find a system that is flexible enough to meet the needs of today while also accommodating the needs of tomorrow. New features and new lines of business.

AG

Pivoting a little, Lauren, I was hoping you could spend a little bit of time going into how technology has played a role in the carrier and MGA relationship.

LK

Technology is really changing the game for MGAs and carriers, turning what used to be more of a transactional relationship into a true partnership. These days, advanced integration tools make it easier to share data in real time. Carriers can instantly see how underwriting and performance metrics are tracking, and MGAs can use that information to tweak strategies on the fly. And it's all about transparency and being proactive, which builds a lot of trust on both sides.

One of the most exciting aspects of this collaboration is in risk assessment. MGAs now use advanced analytic platforms and algorithmic tools to fine-tune risk models to align with the insurer's risk appetite, boosting the accuracy and giving carriers confidence that the risks that MGAs handle are both solid and profitable. I would also say that another big win is MGAs are using technology to design super specialized products for niche markets. Carriers love this. It helps them diversify their portfolio and tap into segments that they may have overlooked. And basically, at the end of the day, technology is turning the MGA-carrier relationship into something much more collaborative and strategic.

AG

Thank you. Now before we end this podcast, we're sitting here now recording in December. So we're getting close to end the year. And I was hoping that we could go into some of your predictions for MGAs in 2025.

LK

First off, it's hard to believe that it's almost 2025, but looking ahead for market conditions, looking ahead to 2025, Conning believes that the MGA market will continue its growth, maybe at a more moderate pace compared to the extraordinary gains that we've seen in recent years. The E&S market has seen a 21% compound growth in the last five years.

This highlights that increasing demand for specialized products and underwriting expertise and MGAs have been a key part of this market. The positive outlook remains clear. A.M. Best recently reaffirmed their optimism for the program sector, highlighting that MGAs continue to grow their market share and this aligns with what Conning's hearing across the industry. With that being said, we might see growth stabilized as the cyclical nature of the market introduces new challenges. But for MGAs, the key is going to be maintaining momentum and staying innovative and flexible, and that ultimately, the outlook for the MGA sector remains strong. Its ability to innovate, adapt and specialize ensures it will continue to thrive in a rapidly changing market environment.

KM

Lauryn, I agree. Is it really December? Where has 2024 gone? Good news is, like you said, 2025 should be another positive year for MGAs and really another exciting year as far as technology goes. I expect we're going to see MGAs continue to look to technology, data and analytics to enhance UI (User Interface), to better understand market trends, and to probably most importantly, better meet customer needs. We're also going to see more MGAs use AI and machine learning. As the industry's comfort level and understanding of these tools grows, MGAs are going to be using those more to understand risk and to identify potential new markets at a deeper level than ever, and I'm really looking forward to seeing the advances there.

And we're going to see MGAs tap into the power of AI to launch niche-specific products more quickly. And machine learning is going to play a larger role too. We're going to see MGAs use it to enhance efficiency, accuracy, and again, customer satisfaction by enabling those predictive analytics, automating processes, and providing deeper insights. And both AI and machine learning, they're going to be looked to in new and expanded ways as we continue to see MGAs looking to speed up operations, reduce human error and automate those mundane manual and routine tasks and allow skilled professionals to focus on what they're best at and add more complex value-added activities.

Finally, I'd say we will see more MGAs shifting to those systems and tech stacks that are built specifically for MGAs that I mentioned. Right now there are about 30 to 40% that we estimate are using MGA focus systems. I expect this number will continue to increase as more emerging MGAs seek to right-size their IT costs.

LK

I also wanted to touch on that. I think technology is definitely going to play a critical part in the growth of the MGA market. Just to close out, the MGA space is buzzing with opportunity and continues to draw investor interest, a trend that Conning thinks will continue into 2025.

Innovation is really at the heart of MGA success. Their ability to adapt quickly, leverage technology and focus on niche markets is what really sets them apart. Trends like the growing demand for tailored solutions and the push for greater efficiency in the program space are going to be key drivers as we move through 2025. MGAs have carved out this unique edge by focusing on these underserved markets and leveraging technology to deliver profitability in areas that carriers often struggle with. And their ability to stay flexible and forward thinking isn't just helping them navigate the industry's evolution, but it's really driving and positioning the MGAs for sustained growth and success.

AG

Great, thank you so much.

It sounds like it's going to be an exciting time in 2025 for MGA. So excited to see how it all pans out. That's unfortunately all the time we had for today. Thank you both so much for joining me as we went beyond the text. And thank you all

for listening to this episode. If you have any questions, please e-mail insuranceresearch@conning.com. We hope you will all subscribe to this podcast and join us for our next episode as we stay up to date on industry trends.

Thank you.

[FADE TO MUSIC]