

MGA CORE SYSTEMS: OVERVIEW AND PROMINENT PROVIDERS

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Authorized Excerpt

Summary

This authorized excerpt contains content from a Novarica report. Insurers turn to managing general agencies (MGAs) to help grow business, expand into new products and geographical areas, or fill gaps in underwriting expertise. While some MGAs rely on underwriting and policy issuance platforms provided by insurers, many MGAs, especially those owned by insurers, are deploying their own platforms.

This excerpt includes the profile of Xceedance MGA Agility Suite. The full report covers ten core system solutions suitable for MGAs.

Contents

<i>Introduction</i>	2
<i>MGA Market Overview</i>	3
<i>Size and Growth</i>	3
<i>M&A Activity</i>	3
<i>Technology Strategy Implications</i>	4
<i>MGA Systems Overview</i>	5
<i>Core System Capabilities</i>	5
<i>Architecture</i>	5
<i>Key Components</i>	6
<i>Xceedance MGA Agility Suite</i>	8
<i>Concluding Thoughts</i>	9

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1

INTRODUCTION

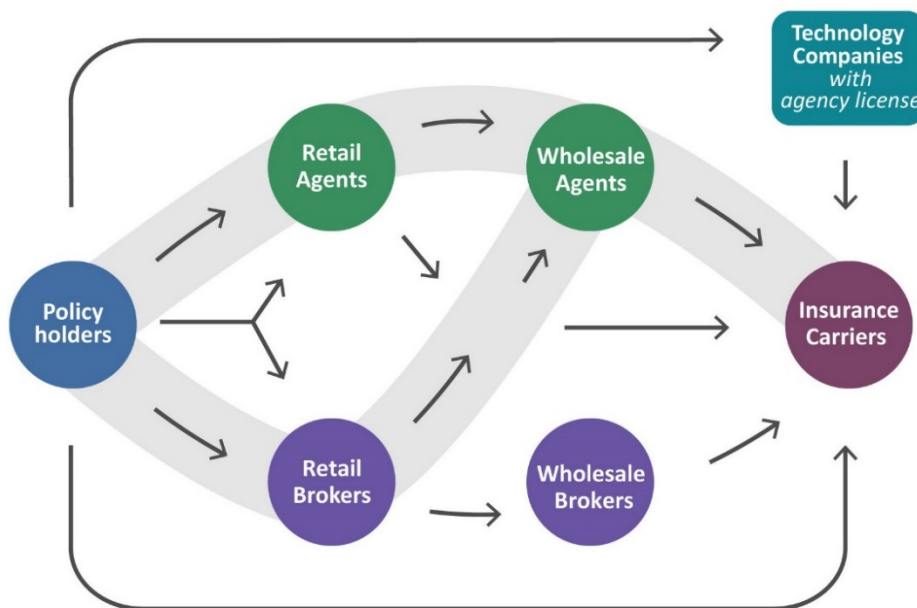
Insurers traditionally turned to managing general agencies (MGAs) to help grow business, expand into new products and geographical areas, or fill gaps in underwriting expertise. MGAs allow insurers to take advantage of niche market expertise to expand their distribution without needing to build out the necessary infrastructure. MGA business (measured in premiums) is growing faster than property/casualty premiums. MGAs are exploring emerging technologies and InsureTechs to improve customer experience, grow their books of business, manage risk, and gain operational efficiencies.

When it comes to acquiring the technology to underwrite, bill and collect premium, and manage claims, the typical model has evolved over time. MGAs used to purchase their own core system technology; then, when the introduction of web-based systems made it easier for MGAs to access insurer systems directly, insurers started providing the technology to conduct business with MGAs. Now, the pendulum is swinging back toward MGAs owning their core system technology. Key drivers of this change include the need to compete with other technologically advanced MGAs, the increased value of data, and greater private equity and venture capital investments in MGAs.

MGAs may either be affiliated, meaning an insurance carrier owns the MGA, or non-affiliated, meaning the MGA is independent of carriers.

Carriers should consider what core system technology investments are necessary to ensure ease of doing business with MGAs, e.g., providing rating APIs. MGAs tend to have smaller technology budgets than carriers; their needs fall between those of agents/brokers and insurer core systems. This report covers ten core system solutions suitable for MGAs. About half of the solutions are traditional insurer core system offerings that are also available to MGAs. The other half are marketed as exclusively MGA systems.

Figure 1: The Role of MGAs in the P/C Distribution Model



MGA MARKET OVERVIEW

Size and Growth

There are no definitive figures available for the number of MGAs in the marketplace. Carriers are only required to report MGAs that account for 5% or more of surplus. There is also a lack of clarity as to what is and is not an MGA. MGAs may be affiliated or unaffiliated. Conning tracks over 600 MGAs but suggests the actual total is closer to 1,000, or more.

2012 MGA premium was roughly \$25B, and 2018 premium was \$45.4B, about 7% of total property/casualty premium. Conning cautions that \$65B (10%) is a better estimate for 2018 premium, considering gaps in filing requirements. The MGA market grew 8.9% between 2012 and 2018 based on Conning's estimates of MGA premium.

MGAs tend to focus on specific lines of business, largely liability, motor, property, crop, and workers' compensation. They have the most interest in underwriting commercial lines, especially general liability, motor, workers' compensation, and property.

Carriers acquire or launch MGA operations for many reasons in what could be a growing trend. Many insurers leverage their own MGAs to roll over books of business, expand into new geographies or product lines, leverage a strong retail distribution network, or increase their underwriting reach without having to invest in overhead.

M&A Activity

The MGA M&A market is quite active. Carriers are seeking to control their distribution chains and acquire business that is more profitable and growing more quickly than standard commercial lines. Distributors want to ensure that they have business from the larger brokers that are consolidating their relationships. InsureTechs are pursuing distribution without the regulatory burden of becoming carriers. Private equity and venture capital firms see a fragmented market with attractive growth prospects and margins.

The lines between categories of buyers are blurry. Many distributors, for example, are backed by private equity firms and act as market consolidators. Private equity and venture capital firms also provide funding for InsureTechs.

Brokers and wholesalers active in buying MGAs include Gallagher, Ryan Specialty Group, AmWINS, U.S. Risk Insurance Group, Brown & Brown, HUB International, Alliant, BB&T, AssuredPartners, USI Holdings, and All Risks. Worldwide Facilities, LLC and NSM Insurance Group purchased the most fellow MGAs between 2016 and 2018.

Carriers active in buying MGAs include AIG, which acquired Glatfelter Insurance Group in 2018; Arch Capital Group, which bought Arista, Fusion, McNeil & Co., Towergate Commercial MGA, and Towergate Personal Accident and Travel in 2018; The Hartford, which bought Y-Risk in 2018; Houston International Insurance Group Ltd., which bought Creative Risk Underwriters LLC in 2018; Liberty Mutual, which bought TRU Services in 2017; and Tokio Marine Holdings, which bought WNC Holdings LLC in 2018.

Technology Strategy Implications

Non-affiliated MGAs are acquiring their own core technology solutions to conduct business with agency clients and insurance carrier partners. MGAs switched from using custom or off-the-shelf solutions to using their insurance partners' solutions, then switched back to using their own solutions. Key drivers for these changes include the need to compete with technologically advanced MGAs, the growing value of data, and greater investment in MGAs from private equity and venture capital firms. The reduction of technology costs over the past few years has made this swing feasible.

The greater value of data is of particular interest to MGAs, firms investing in them, and insurers owning MGAs. Most MGAs would rather own the data they gather during a marketing/quoting event (quote/bind, decline, reject) than wait for the data to arrive from their insurance partners. Private equity firms also see the value of the data that MGAs gather, especially as MGAs take on more market share.

Core technology options specifically for MGAs have become more cost-effective. MGAs who want more control of the marketing and quoting/binding process are now able to purchase these solutions, which has increased the requirement that MGAs send monthly bordereaux files to carriers.

It has become critical for carriers who work with non-affiliated MGAs who own their underwriting systems to simplify data sharing and collaboration with MGA underwriters. Another critical point is ensuring that adequate real-time audit capabilities are available. More MGAs, including smaller MGAs, are seeking direct integration with carrier systems via web services. Establishing an API library to orchestrate the digital interactions with an MGA requires spending for setup and maintenance, but the investment could ultimately reduce costs and improve risk management. This is because MGAs will be able to execute an insurer's rating and generate an insurer's set of binder and policy documents from their own systems, thereby reducing the possibility of errors on the MGA side.

Carriers that own MGAs, especially those who underwrite risks for competing carriers, may simplify or reduce the entanglement of business operations between affiliated MGAs and other owner insurers by allowing their MGAs to acquire and manage their own technology. Doing so would improve the chance of attracting new business from other carriers or future sales of the MGA. Establishing data marts may also be worthwhile to allow consolidated processes like account and risk clearance, account management, account-level underwriting assessments, and cross-marketing.

Otherwise, if the affiliated MGA only writes on its owner carrier's paper, it may be more cost-beneficial to leverage existing carrier core system technology solutions.

MGA SYSTEMS OVERVIEW

Core System Capabilities

A well-developed MGA core system should integrate downstream and back-office systems to provide effective support for the management of contracts and financial results. It should also provide interface points for all involved stakeholders (e.g., home office employees, sales partners, premium paying customers) to participate in the management of the policy lifecycle. The system is the foundation for all other processing; it is central to the effective and controlled management of a carrier's block of business. The platform may support single or multiple lines of business. It may also interface with single or multiple distribution channels.

The MGA core system may offer a suite of capabilities, or it may be designed to interface with a variety of solutions that provide other capabilities delivered by unrelated vendors. A system that does not include robust modules to handle contact and document management, for example, should integrate easily with other applications that provide the requisite functionality. Tools that provide easy access to and navigation of traditional functions of sales organizations and home office associates are standard elements for MGA core system solutions.

What the industry considers a complete MGA core system has expanded over the years to include much of what was previously licensed or built as ancillary functions. Few vendors in this report license a stand-alone policy administration component. Vendors vary as to whether additional core system components (e.g., billing, claims) are integral pieces of the suite or stand-alone offerings they sell and integrate separately. Novarica publishes separate Market Navigator reports focusing on the details of these individual components, while this report covers the entire suite that falls under the MGA core system umbrella.

Architecture

Cloud and SaaS Offerings. Most MGA-purposed solutions now offer products on a private or public cloud (usually Amazon Web Services or Microsoft Azure) with traditional or SaaS pricing for licensing and maintenance. The shift to SaaS is expected to continue as carriers, concerned about the cost of core system upgrades, investigate the benefits of SaaS models to mitigate these costs.

Single-Tenant vs. Multi-Tenant. A multi-tenant system is one where a single instance of an application server supports multiple clients or where a single instance of a database stores multiple clients' data. This approach supports the best practices of seamless upgrades and zero-customization implementations in a way that single-tenant only simulates. Most vendors continue to keep a single-tenant approach, but more will experiment with an approach where a multi-tenant application server connects to a per-insurer single-tenant database.

Web Services. Cloud adoption continues to rise throughout the insurance ecosystem, and web services have become cheaper and easier to use since cloud-centric services act as the ultimate hub in exchanging data from one entity to another. Most, if not all, MGA-purposed core technology solutions are now constructed with API libraries or software development tools set up to make it easier to transact with retail agents and their agency management systems as well as their insurance carrier partners.

Key Components

Core policy administration systems should provide MGAs with the same functionality that the solutions provide carriers. The key components surveyed by Novarica include:

Core Policy Administration. This function handles all core aspects of policy management: new business, policy change, renewals, non-renewal, cancellations, cancel/rewrite, reinstate, and premium audit. It often includes customer or account management and commission management.

Rating. Rating engines are rule- and table-based components that assess the submission risk variables and coverage selections to determine the policy premium. Most policy administration offerings contain some level of rating engine, though their complexity varies. Alternatively, MGA systems can typically integrate with stand-alone rating engines, and some vendors will have pre-existing integrations available with partners.

Underwriter Workbench. Underwriter workbenches allow for the management of an underwriter's workspace and an integrated workflow that provides transparency into work items. Some workbenches available to MGA systems also allow collaboration with carrier-partner underwriters by way of reviews and referrals. Straight-through-processing (STP) is often a feature of MGA systems that allows retail agent partners to submit business applications for binding and sometimes issuance without MGA underwriter interaction.

Account and Risk Clearance. Account and risk clearance typically consist of reviewing key data elements of risk submissions, including insured name, address, DBA information, risk location, and related policy records to ensure that the risk is not already insured or reserved for underwriting consideration by another agent or broker. Clearing risks supports data integrity by eliminating data duplication and agent/broker conflicts.

Document Creation/Management. Many MGA solutions can generate documents using customized templates that administrators manage; these documents merge with policy or customer data run-time. This is either handled in an ad hoc capacity for specific customer communication or in a batch fashion for mass printing of statements. MGA solutions without these features integrate to third-party document generation/customer communication management tools or provide interfaces to do so.

Agent Portal. An agent portal provides agent self-service capabilities and should integrate with MGA systems and often with third-party data services and enterprise document management solutions. A robust agent portal allows agents to get quotes/submit new business, track status/manage changes, communicate/collaborate with underwriters, and view reports about commissions/transaction histories. Some vendors offer agent-facing capabilities through independent modules that they developed for the agent user specifically; other vendors expose their core system screens to agents and limit access with role-based security.

Business Intelligence. Insurers have been investing more into BI and data analytics toolsets; a subset of this functionality is making its way into MGA solutions, embedded in the solution or included as a modular or stand-alone component. Vendors without this functionality built-in still need to have an integration story for moving data to warehouses or other third-party analytics tools. Many insurers will choose to use their own BI environment instead of vended offerings.

Billing. Billing functionality for MGAs is similar to those within carrier systems. Direct billing is handled between the insured and the carrier. It is more common than agency billing in which the MGA bills the agent client submitting the risk to the MGA. Some MGAs leverage third-party billing services and integrate them with their systems. MGAs handling credit card or EFT payments will partner with a third-party payment gateway vendor.

Claims. These are platforms that allow for the management of claims transactions. MGAs typically manage programs supported third-party administrators (TPAs) that utilize their own systems. MGAs with TPAs managing their programs' claims will have a read-only version of claims data available during the underwriting process.

General Ledger/Corporate Accounting. MGAs typically leverage agency management systems to manage their book of business, including support for their general ledger and corporate accounting needs. There are also MGA solutions that offer general ledger and corporate accounting features, allowing an MGA to house its core technology solutions in one system. Many MGA core system solution vendors otherwise provide the ability to map journal entries with corporate accounting systems or those housed in agency management systems.

Business Rules and Workflow Engines. Modern MGA systems typically come with configurable business rules and workflow engines to create and execute underwriting rules and create and track underwriting tasks. Many MGA system workflow engines support role-based security that manages the flow of tasks among underwriting teams with a combination of geographical lines (states, regions, offices), lines of business, programs, and insurers.

XCEEDANCE MGA AGILITY SUITE

Company. Xceedance was founded in 2013 and has headquarters in Boston, MA. The company does not disclose annual revenue information.

Solution. MGA Agility Suite offers a tailored platform for MGAs and MGUs that encompasses policy administration, underwriting, distribution, agent portal, and BI/reporting functionality. The suite integrates with third-party providers, including document generation services, data providers, sanctions check providers, general ledger applications, and payment gateways. The solution incorporates a SaaS delivery model hosted on Microsoft Azure and an on-prem hosting option. The hosted solution is a single-tenant application and database.

Client Base and Pricing Information. Xceedance currently has two global MGA clients live on the MGA Agility Suite. The company does not disclose MGA-related implementation costs but reports that maintenance costs start at \$2.5K per month. The pricing model is flexible, and an annual written premium-based model is preferred. The MGA Agility Suite's product licensing fees include maintenance and support.

Features and Functionality. The MGA Agility Suite is API-enabled, allowing any MGA portal to access and abstract the functionality of the system. Rating, rules, forms, and questions engines are integrated together, enabling business users to define questions through configurations, generate forms using configurable templates, and define rating logic, tables, and business rules through configurable UIs. Xceedance can build a bespoke customer portal via coding to meet specific UI/UX needs. Billing can be customized or integrated and encompasses multiple payment schedule options and monthly premium collection and matching against an installment. Claims and general ledger are also available via API integration. ISO integration is not yet available out-of-the-box, but the company reports that this is on the product roadmap.

Partners. Xceedance does not have any publicly announced partnerships for the MGA Agility Suite.

CONCLUDING THOUGHTS

Carriers have options when selecting technology solutions for their affiliated MGAs or when integrating with non-affiliated MGAs with their own core system solutions. MGA core system ownership is trending upward due to the value of data, investments from private equity firms, the increased feasibility of purchasing technology, and the need to compete with technologically advanced MGAs.

MGA core system solutions can come from vendors that market significantly to MGAs or vendors that offer solutions to MGAs and insurance carriers. There are many options to choose from that may fit a carrier's distribution models, business goals, technology strategy, and MGA relationships.

The MGA market share has increased in terms of total premium over the past few years. It will be essential to creating the right technology strategy around the MGA distribution model to stay on top of this trend.

Related Research

- [Business and Technology Trends: Commercial Lines](#)
- [Property/Casualty Administration Solutions](#)
- [Business and Technology Trends: Specialty Lines](#)

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