BULLISH ON PROGRAM BUSINESS

Program administrators foresee continuing growth and new opportunities in 2013

By Gary Kimball

With a wary eye on Superstorm Sandy battering the Northeast, hundreds of program administrators and carriers gathered for the 12th Annual Target Markets Program Administrators Association (TMPAA) Summit in Scottsdale and forecasted continued growth and success for program business in the coming year.

Buoying these opinions were the results of the TMPAA State of Program Business Study 2012, which were released at the Summit, held October 29-31.

The study valued the 2011 program administration market at $24.7 billion in premium, up from $22.6 billion in 2010. It found an estimated 2,000 individual programs, up 5% from a year earlier, and average growth in premium volume of 9%. Overall, premium revenue increased 5% and the renewal rate stayed strong at 84%.

"There is huge value in being a program administrator," said Glenn Montgomery, president of Brownstone Insurance. "The multiples (acquisition values) are at an all-time high. Everyone wants what we have, and we're very attractive. We have a unique level of industry expertise and are hyper-focused on our respective niches."

Consolidation expected

The financial value of program administrators was highlighted in the TMPAA study, which reported that 43% of respondents expressed their intention to purchase other administrators. The study noted, however, that only 9% said they plan to sell. "Since demand is greater than supply," the report concluded, "it appears that there exists a sellers' market and multiples for program agencies may increase."

Strong merger and acquisition (M&A) activity is driven by a number of factors, said Randall Goss, chairman and CEO of U.S. Risk Insurance Group, Inc. These factors include the need for significant investment in infrastructure (automation) and a trend for carriers to seek large programs to write.

Also driving M&A activity is the demographics of the owners, said Ben Francavilla, president of AmWINS Program Underwriters, Inc. "Many program administrators have succession issues that need to be taken care of, and a merger or acquisition is one solution."

While many buyers are large players seeking smaller program administrators, Dusty Rowland, president and CEO of Fulcrum Insurance Programs, said that capital is coming into the program space in different forms, from private equity investment to carriers that are looking to acquire program administrators.

"It's all attributable to the success that our segment of the industry has achieved," Rowland said. "People are taking notice of what we do and talking about $25 billion of business that might be more profitable than other parts of their business. They like our specialization, marketing strategy and control over our books of business. That's what drives capital to us."

Carriers seek partners, programs grow

The TMPAA study found that program administrators and insurers are united in the belief that underwriting profitability is what matters most when establishing a successful program—and insurers rate program administrators high in this area.

"When I'm at the Target Markets Summit, I'm meeting with someone every hour or half hour," said Linda Boborodea, co-founder and COO of Business Risk Partners, Inc. "There is so much interest from carriers. The challenge is finding the right affinity: a combination of underwriting and strategy and pricing."

Interest is so keen that program administrators are turning down many new markets, said Tracey Carragher, CEO of Breckenridge Insurance Group. "When you're specialist, not a generalist, with a vested interest in the results of your programs, you have what carriers are looking for. The key is the value added."

QBE North America and Meadowbrook Insurance Group were two of 55 carriers attending the TMPAA Summit, a number that has grown fivefold since the association was established in 2001.

"Target Markets is where the real specialists are and that's where we are seeking growth, with program administrators who have data from years of experience in their industry space," said Doug Bennett, executive vice president of program business for QBE North America.

Archie McIntyre, Meadowbrook's senior vice president for business development, said that his company's structure was built around working with program administrators, and it's a model that works. "We look for partners with industry expertise and underwriting excellence who have created a strong program brand," McIntyre said. "We want to work with proven partners with a long-term view."

With such strength in the program space, many program administrators are looking to expand. In addition to acquisitions, program administrators are expanding in two ways, according to Bennett and McIntyre. First, they are adding new lines within existing programs; and second, they are expanding in related specialties: "a niche within a niche."

Responsible pricing

Looking ahead, the consensus at the 2012 Summit was for continued strong program performance and moderately higher rates in 2013, although the full impact of Sandy and the election remained to be assessed at press time.

"I believe we'll see more responsible pricing in 2013, a continuation of what we're seeing in 2012," McIntyre said. "We're seeing rate increases in some lines and a market that can support that in 2013."

Goss says he expects continued low-single-digit rate increases across all lines and greater increases in lines that have been hit with more significant claims, such as EPLI, D&O and lines affected by the bursting of the real estate bubble in 2008. Workers compensation also remains a challenging line.

"What drives workers compensation rates is claims, and what drives that is health care costs, which have been on the rise," Goss said. "Workers comp claims have historically been held down by political means, but that is no longer possible because loss experience is so palpable. If carriers can't get a rate increase, they won't write it."

Reasons for optimism

Rowland pointed to an improving economy, from housing to travel to financial markets, as a reason to be optimistic about future performance in the program administrator space. "I have great optimism that a recovering economy will lead to a good year for program administrators," he declared.

Carragher shared Rowland's outlook. "I see a good solid year for the entire industry," she said. "In our market there is an increased move toward specialization and respect for it. A lot of other industry associations are seeing decreased membership, but we are growing. The industry knows what we do, and program administration is getting stronger." ■

The author

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