Established program administrators enjoy a favorable market

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IN MANY ways, life is pretty good if you're a program administrator—at least if you are an experienced administrator with proven programs. If you have an idea for a new program that's related to an existing one, you'll probably draw interest from any program insurer you approach. In fact, the insurers very well might contact you first.

On the other hand, if you're trying to get into program business, the going could be tough. Despite the softening market, insurers still are cautious and want to work primarily with underwriters who already have successful track records. Even established program administrators aren't finding it easy to sell insurers on a startup program that lies outside their current areas of expertise.

To get an idea of what life is like in today's market, we contacted several program administrators. They shared their thoughts about the opportunities they see, as well as the challenges and concerns they still face. Following are their comments.

Arthur Seifert, CPCU, CIC, RPLU
U.S. Risk/The Lighthouse Companies

New programs are back in demand, according to Art Seifert—at least those aggregated from existing business. Seifert said that was one of the messages he took away from April's midyear meeting of the Target Markets Program Administrators Association, of which he serves as president.

Late last year, Seifert sold his program-administration business, The Lighthouse Companies, to U.S. Risk Insurance Group. (Lighthouse continues to do business under that name as a fully owned subsidiary of U.S. Risk.) Since then, he said, he has been busy looking for program opportunities in his capacity as president of U.S. Risk's underwriting division. "For instance, between Lighthouse and U.S. Risk, we write about $6.5 million to $7 million of D&O business," he said. "We write $100 million of professional liability. There already are some programs in those numbers, but there are lots of opportunities to create new programs around business that we already have on the books."

Insurers seek out program administrators with proven track records who can 'bolt on' new programs to existing ones.

Like most sectors of the insurance industry, the program-business market is being adversely affected by softening rates, Seifert said. "It's class-of-business driven," he said. "Nursing home rates are down 30% to 40%—and there's tons of competition."

Seifert said he also has seen a broadening of coverage. For example, the liability coverage for Lighthouse's skilled-nursing facility program during the hard market was claim-sensitive, Seifert said. "Now we can get incident-sensitive coverage."

In this softer market, "you look for what I call 'bolt-on' opportunities," Seifert said, where program administrators can leverage their current expertise and resources by developing programs that are "tangential" to existing ones. Such initiatives can enable program administrators to obtain more revenue without greatly increasing cost. For instance, Lighthouse Underwriters, which has programs for skilled nursing facilities and assisted living facilities, last year added a professional liability program for individual health-care administrators. More recently it rolled out a professional liability program for individual medical directors as well as programs for hospices, adult daycare facilities, home health-care facilities and developmentally disabled residential facilities.

Despite the softening market, Seifert said program insurers are not relaxing their requirements for program proposals and continue to require voluminous data. "That's the one thing that I don't think is going to change," he said. "The days of being able to get a program done because you have a good idea and can talk well are gone."


Art Seifert

Sometimes program administrators are unable to provide all the data insurers would like to see, Seifert said. In such cases, however, it may at least be possible to reach an agreement with carriers, he said.

"We were just involved in a large program opportunity that hasn't quite come to fruition," Seifert said, "but we knew upfront that there were going to be gaps in our information, and we were just frank about it." Seifert suggested to the carrier that the actuaries for both sides jointly review the data. "By getting them together, we shortcut the process of having assumptions go back and forth between disputing actuaries," he said. "Put them in a room, lock the door and tell them they can't come out until they come to a reasonable compromise."

As the market continues to soften, Seifert said he expects to see more consolidations like the one that brought The Lighthouse Companies to U.S. Risk. "You go into a soft market, and all of a sudden you can go from having $100 million (in premium) to $60 million, without really having changed your operations. So stability gets to be an issue." For buyers, he added, a soft market is a good time to make acquisitions, because they don't have to pay top-of-the-market prices.

Seifert said he is in the market himself. For instance, he said a $5 million program for risks in the entertainment industry, offered in an asset sale, could make an attractive opportunity, since it could be added to an existing Lighthouse program. "I don't have to pay for expertise, because I already have it. I already have the systems and underwriters in place. I'm picking up a new market and adding $5 million in premium to an existing program. My profit margins are pretty good on those kinds of acquisitions."

Seifert said a key to success for program administrators this year will be to run back-office operations as efficiently as possible, which will require tight controls and wise use of technology. "How do you actually process the business, once you have it in the door?" he asked. "It's going to be more and more of an issue, because the margins are thinner."

Glenn Clark, CPCU
Rockwood Programs

For Glenn Clark, president of Rockwood Programs, today's marketplace offers program administrators opportunities to add value to their programs and differentiate themselves from competitors. For example, Rockwood recently announced that it added legal expense coverage for wage and hour claims, subject to a sublimit, to its EPLI program.

"We've launched a couple of new things this year, like the ability to do a 10- to 15-person employee group (for EPLI) for $500, Clark said. "We also can add EPLI to a book of MGA business now. We call that 'Write Your Own.'"

Rockwood offers several EPLI programs, as well as a D&O program for nonprofit organizations. It has other programs providing E&O insurance to different groups, including life/health agents, P&C agents, and podiatrists. Rockwood also manages the Target Markets Program Administrators Association's E&O Program with its partner, DarwinPro.

Broader coverage is not the only change in today's market. A few years ago, most insurers required program administrators to have "skin in the game," by agreeing to absorb part of a program's losses. Clark said he sees less of that in today's market.

"My personal observation is that insurers are looking to put premium on the books, so that whole risk-share thing … is not pushed as much, though there are some carriers that still have that proclivity," he said. New carriers entering the program-business market are not stressing it at all, he added.

Clark said program insurers also seem to be ceding less business to reinsurers, betting they can boost their bottom line as a result. "They are feeling more and more comfortable with lots of small accounts with a maximum limit of $1 million," he said.

In today's environment, some program administrators are placing additional emphasis on marketing themselves to retail agents, but Clark said Rockwood always has been marketing-oriented and is not particularly doing anything different now.

"Our best customer is a previous customer," Clark said. After writing EPLI for an agent, he said, Rockwood might try to interest the agent in the nonprofit D&O program. "And the next thing we say is: 'Well, you're doing business with us now. How about letting us look at your E&O?'"


Glenn Clark

Clark said he is concerned that in today's soft market the line may be blurring between programs and less specialized insurance products.

"There was a time when everyone called something a program," Clark said, adding, "the opportunity for the same mistakes are there again."

"To have a program, you should be differentiated in risk management service, policy form, delivery vehicle or price," he said. "You've got to bring value to the marketplace."

Mike Oliver
BISYS Specialty Programs

While insurance markets in general may be getting softer, program insurers are not getting careless when it comes to picking opportunities, according to Mike Oliver, senior vice president of BISYS Specialty Programs.

"The companies that are doing well are very disciplined in the selection process," he said, "I think that's going to continue."

BISYS Specialty Programs operates roughly a dozen programs, Oliver said. For the most part, he said, the programs are in the transportation,

Five new carriers announced at Target Markets mid-year meeting

THE TARGET Market Program Administrators Association continues to grow, according to Glenn Clark, CPCU, who founded the association almost six years ago and currently serves it as a director. Clark also is president of Rockwood Programs, a charter member of the association.

More than 300 people attended TMPAA's third mid-year meeting, making it the largest so far, Clark said. At the meeting, which was held in April in Baltimore, the association announced five new market members, Clark said, bringing the total number to 37. Those joining, he said, were Colony Insurance Co., which is part of Argonaut Group; Westco Programs, which is part of Western World Insurance Group; Catlin Group Ltd.; Chubb Custom Markets; and Aspen Specialty. The association has 217 program administrator members, he added, and hopes to be at 250 by year-end.

Individual meetings between carriers and program administrators appeared to go well, Clark said. "There are a lot of insurers who are willing to talk about smaller programs ($2 million in premium and above)," he said. "That's a huge thing for us."

One initiative announced at the mid-year meeting was the TMPAA Best Practices Designation Program, Clark said. Program administrators interested in seeking the designation undergo a 10-point onsite evaluation/consultation by the law firm of Wilson Elser Moskowitz Edelman & Dicker LLP, a member of TMPAA.

The association's Sixth Annual Program Administrator's Summit will be held Oct. 23-25 in Tempe, Ariz. For more information, visit www.targetmkts.com.

professional and workers compensation markets.

"While program insurers in the soft market are looking at a broad range of opportunities," Oliver said, "they also are charged by their companies and their stockholders, or whomever they report to, to make sure that whatever they take on is exactly what's represented."

Consequently, Oliver said, carriers are bringing more resources to bear on the evaluation of program opportunities. "For example, they're bringing in the IT staff, the actuaries, operational people—just so they have an idea of the full scope of the program in all the functional areas."

"While carriers may have a stronger appetite for programs today, they are looking for highly defined market segments in an effort to enhance product differentiation and avoid competing on price," Oliver said. A simple package or workers compensation program would be too "cookie cutter," he explains. Carriers would rather work with emerging associations or other specific risks, he said.

Like Art Seifert at U.S. Risk/Lighthouse Insurance Cos., Oliver said BISYS Specialty Programs has had the greatest success working with carriers with which it already has relationships on programs not too dissimilar from those it currently offers. For instance, he said, BISYS started a program for tow-truck operators in the past year with Universal Casualty Insurance Co., a Chicago-based carrier owned by Canadian insurer Kingsway Financial Services, with which BISYS already had a relationship.

"So they were comfortable with our ability to do the administrative work, and with our underwriting skill," Oliver said. After BISYS brought in a person with prior experience in that niche to operate the program, the carrier gave the green light, Oliver said.

If a program administrator can't find a way to expand its current program base into related products, its best bet for growth is probably to buy other programs, Oliver said. "We do have the backing of our parent to look for things," he added. "We're very interested, because that (an acquisition) brings you both new programs and possibly new market relationships."

Oliver said he hasn't seen carriers significantly reduce the minimum size of programs they'll consider. "It takes as much to start up a $3 million program as it does a $10 million program, so why not take the $10 million?" he asked, adding that much depends, however, on program profitability and growth potential.

In the year ahead, Oliver said program administrators' chief concerns probably will center on softening rates. "Our transportation business is fairly stable, but there still is a little pressure on rates there," he said. "You get into some of the more Main Street things, it's tough."

Rob Roberts
Casualty & Surety Inc. (CSI)

For CSI, a program administrator that specializes in mining, transportation and assisted living, the softer market means an opportunity to revive a previously shut-down program.

Rob Roberts, executive vice president, said CSI lost a carrier for one of its programs in 2003 and was unable to find a replacement, which was not such an unusual occurrence back then—even for profitable programs. To keep its business, CSI switched gears and placed the accounts as a surplus-lines broker. Now, as insurers show renewed interest in program business, CSI is in negotiations with a carrier to restart its program, Roberts said.

CSI's situation appears to be a variation on a theme sounded by other program administrators contacted for this special report. Few programs seem to be formed from scratch these days. Rather, the new programs are aggregations of business for which the program administrator has a track record.

Rob Roberts

"It's not like it was back in the late '90s, where if you had an idea, all of a sudden you had a program," Roberts said. "They (insurers) still want to see the data. Even if it's older data"—like for CSI's suspended program.

"We had to update the proposal," Roberts said, "and pull data from a couple years to make current-year loss runs available."

If CSI succeeds in reviving its program, it expects to write about $10 million for it by the end of its first year, Roberts said. He added, however, that carriers seem willing to entertain programs as small as $3 million to $5 million, "as long as it's true niche business."

Roberts said insurers also are more open to coverage enhancements these days. "All four of our carrier partners are willing to listen to our suggestions," he said. "We talk to them at least monthly." A few years ago, a carrier added flood and earthquake exclusions to the contractors equipment coverage of one of CSI's mining programs. Now, Roberts said, they can again offer flood and earthquake coverage. "Not on every account, but on more and more," he said, "especially on large-account renewals."

Like many program administrators, Roberts said it has been difficult to maintain rates in the softening market, although the mining programs have been fairly stable. "It's hard to get an increase, but we certainly aren't offering many decreases," he said. "In the transportation sector, though, we are seeing anywhere from 10% to 15% rate decreases on profitable accounts."

Looking ahead, Roberts said his chief concern was that the industry might see a repeat of 1999-2000, "where anybody and everybody who wanted a program could get a program, and that really drove the rates down." Back then, there were even "commodity-driven" programs, Robert said, meaning that one could have a program "to write casualty business, which could be anything from a manufacturer to an office building, rather than specialized programs."

Michael J. Hill, CPCU, CIC
Freberg Environmental

Michael Hill, president of Freberg Environmental, said while program insurers are more open to business than they were a couple of years ago, they're still acting prudently. Freberg Environmental operates four pollution-oriented programs. Recently, it started an add-on program that provides excess liability insurance for an existing truckers environmental program.

"As we went out to the market, we got a pretty good reception," Hill said. He added that he wound up securing a new market, Gotham Insurance Co., for the program.

Today, insurers are giving much more actuarial scrutiny than in the past to proposed programs, Hill said, and more frequently auditing the underwriting of those programs they accept. The last decade witnessed a number of high-profile liquidations of program insurers, Hill said, which is prompting today's program insurers to operate conservatively, to satisfy rating services like A.M. Best and to reassure their stockholders.

"When carriers give out the pen, that's a pretty big step," Hill said, and during the last soft market, "a lot of them didn't have the proper oversight and the ability to audit and manage the program managers." As a result, he said, several programs tanked and program business got a bad reputation.

While some programs' coverage has broadened in today's softening marketplace, Hill said that hasn't been the case in the environmental niche. He said insurers have expressed concern about softening rates, however, particularly in casualty lines. "The carriers are very interested in seeing us hold those rates as much as we can," he said.

> **If you can't produce credible premium and loss data, it's hard to launch a program–and startups don't come with a lot of data.**

With rates softening, technology becomes an important factor in program profitability. There's no uniformity, however, in how insurers and program managers divide up the associated costs, Hill said. For one market, he said, Freberg had to agree to acquire a new system that would be compatible with the carrier's. On the other hand, another carrier pretty much furnished Freberg with everything it needed to do business with it, he said.

Technology "is something you have to consider when you're looking to start a relationship with a carrier," Hill said, "because some of these investments can be pretty healthy."

Like other program administrators contacted for this special report, Hill said start-up programs are not much easier to launch now than they were in the hard market.

"So much of what (insurers) do anymore is actuarially driven," Hill said. "So, if you're not able to produce premium and loss data that is credible to them, it makes it really difficult to start a program—and start-ups, of course, don't come with a lot of data."

Riley Binford
Tangram Program Managers

Not long ago, program administrators practically had to beg to get a carrier to consider a proposal. But Riley Binford, senior vice president of Tangram Program Managers, in Petaluma, Calif., said things are different now.

Riley Binford

"For the first time in a long time, we're starting to see carriers approach us on doing a program for them," he said. "We're talking to a carrier right now about an auto liability program for nonprofits. They knew of us because of our (predominantly California) workers comp program for nonprofits, and they knew we had a dis- tribution network of brokers who bring us nonprofit business." Thus the carrier saw that offering its auto liability product would be a natural fit with what Tangram already was doing.

Similarly, a London syndicate has proposed working with Tangram on a truckers physical damage and motor truck cargo program, Binford said. "That wasn't happening just two or three years ago."

Like other program administrators contacted for this article, Binford said carriers are mainly interested in working with program administrators on programs related to their existing ones and that starting something "from scratch" remains difficult.

All told, Tangram has about 10 programs currently operating or in the works. They include a real-estate E&O and a lawyers professional liability program with London syndicates, a contractors program and a property owners package geared to more difficult risks, like buildings housing both apartments and retail establishments.

Binford said volume requirements seem to be dropping in today's market. He said $5 million used to be "the magical figure," although some carriers required as much as $20 million. "That

$5 million is coming down into the $3 million range," he said, "and some carriers are willing to go out there with a $1 million commitment."

Binford said he has yet to see carriers greatly expand coverage, but many seem willing to consider risks they formerly would reject. For example, he said, the syndicate working with Tangram on the real estate E&O program now will entertain start-ups.

Binford said all of Tangram's programs, with the exception of the one for property owners, are facing softening market conditions, but nothing severe—except for one.

"Our workers comp program is predominantly in California, and we're seeing a huge—on average, 30%—drop in rates," he said. Every day it seems to be getting a bit more competitive."

To a degree, the rates have dropped because of workers comp reform legislation passed in the Golden State, but additional capacity brought in by new players is an even bigger factor, said Binford, who calls the California workers comp market "super soft."

Overall, however, Binford said Tangram sees great opportunity in expanding product lines around existing programs and in entering new territories, including the Midwest. As a result, it has increased direct-mail solicitations and other forms of marketing to both wholesale and retail producers.

"Traditionally our programs have been closed to a fairly tight network of retail brokers," he said. "But in the past eight months, we've decided to really open that up."