Hitting the Mark in Program Business

Target Markets Aims to Win

By Andrea Ortega-Wells

Nearly five years ago, a group of program specialists gathered in Tempe, Ariz., for the first summit meeting of a budding industry organization called the Target Markets Program Administrators Association. The brainchild of Glenn Clark, owner and president of Wilmington, Del.-based Rockwood Programs Inc., the new association seemed to hit the mark for many in the program marketplace.

"It definitely looked like it would fit a need that we had," said Art Seifert, president of The Lighthouse Companies and current president of the Target Markets association. For Seifert, and other attendees at the first conference, Target Markets seemed to offer something no other association had done before.

"There really wasn't anything out there that specifically addressed program managers," Seifert said. "We're not a general wholesaler so we don't really fit the AAMGA (American Association of Managing General Agencies) model. This was the first thing that I had seen."

The National Association of Professional Surplus Lines Offices (NAPSLO) and AAMGA had been the traditional associations serving general wholesale agencies for years, but there was no organization that met the unique needs of program professionals.

"Napslo and AAMGA. . . their target clients are general wholesalers, guys that have the pen for 17 different companies," Seifert noted. "That's not what we do. Every one of our programs has a single carrier or in some cases maybe two carriers and that's it; that's the only place we place that business."

And that's exactly how the vision of Target Markets began.

The idea for an association dedicated solely to the needs of program administrators was originally conceived in 1998.

"We were going to remake InsGroup, a retail agency association, into an association of program administrators," Clark said. InsGroup, owned by reinsurance broker EW Blanch, had 66 members and Clark was its president. Then in 2000, the Rockwood management team had a buy out and bought their way out of EW Blanch. "We never could get EW Blanch to fund the start of this new association, so we started to do it on our own," he said.

> "What we are heading towards is almost like a seal of approval—a mark of excellence."

The right time to begin

When the association held its first meeting in October 2001, the industry was at the beginning of yet another hard market cycle. Rates were firming and many carriers were leaving the marketplace. The timing seemed to be ripe for an association focusing on the needs of the program marketplace.

"The timing was good," Seifert noted, adding that a number of key carriers writing programs were exiting the market. Program administrators were faced with moving their programs and limited options.

"Kemper did programs; they're no longer here. Reliance did programs; they are no longer here. Commonwealth Risk Management, TIG, and Frontier. . . they're no longer here." Seifert added that there is always a need to move programs when something "goes bump in the night." And Target Markets provides the ideal venue for building relationships with markets so administrators can handle those "bumps" with ease.

"The program market was largely underserved by the other organizations that were out there," said Rick Weidman of Clarendon Insurance, one of the first carrier members to support Target Markets. "We recognized a need in the market for something that was a little more focused on the needs of program specialists." Clarendon has been in the program marketplace since 1992 and writes about $1.7 billion in program business.

American International Group's program division also signed on to the new association's model at the onset.

"We were first interested because this association is really designed for program administrators in the definition of how we see them," said Terri Moran of AIG Programs, who also serves on the Target Markets advisory board of directors as well as the education committee.

"Program administrators typically are brokers that have created an expertise in a homogenous class of business; they have a deep understanding of how to underwrite the business for a profit."

AIG Programs Department of Lexington Insurance Company wrote $1.7 billion in program business in 2004.

Industry watchers zero in

Target Markets was founded on the premise that meetings are for business only, and focuses on five primary themes: access to markets, networking with peers (owner focused), cross-selling, technology and skills building. The business-only environment of its two annual conferences has attracted 31 major carriers writing programs today and 171 program administrator members. But in its early days, there were a few skeptics.

"Being a new entity, it was a sales job to get carriers and vendors to come on board," said Ray Scotto, executive director of the association. "But program administrators all felt it was a good idea."

Today, most in the industry have taken note of the association's growth and development and few skeptics remain.

"How people view us now can be seen by the folks that are involved in the group," Scotto added. That list includes carriers such as AIG, Clarendon, Fireman's Fund, Benfield Inc., St. Paul Travelers, XL Programs, GE Commercial Insurance, CNA and Zurich North America, just to name a few.

"Like anything else, there are a lot of folks that ask about its integrity and the quality of its membership and you hope that over time people will migrate more to the ideals that you are promoting," Clarendon's Weidman said. "We have had major groups, like Benfield, that have helped." Major supporters, such as Benfield, have in many ways made it possible for Target Markets to survive, Weidman added. "Now we have a cross section of virtually anybody that's anybody [in programs]."

"Target Markets is the premiere nexus point for excess specialty program professionals," said Russ Smith of Fireman's Fund. Smith added that being involved with the association has helped to increase the carrier's business and flow of opportunities. "It's not unusual to have 25 to 30 one-to-one meetings in the two days business is conducted [at the conference]." Fireman's Fund underwrites more than 125 programs in excess of $400 million in sales.

Some retailers may also benefit through better access to markets via the Target Market's Target Programs Web site (www.targetprograms.com). Target Programs, launched in 2003, is an online platform that allows retail agents to search for program markets for free. Target Programs provides information about the Target Market's program administrator member, and the programs they offer. However, the Web site is only available to Target Market administrator members and not all members participate in the program.

Raising the bar

In an effort to quantify the quality of work that program administrators perform, Target Markets began conducting a voluntary benchmark survey to identify best practices among its membership. Its first Program Benchmark Survey was performed in 2003 and the second will be conducted in 2005. The results are being used to set a standard of criteria for members to be able to evaluate their own program business, as well as compare their business to others.

The benchmarking data will also be used to implement an eventual Target Markets designation for program administrators. The association's leadership hopes to have the designation in place by 2006.

"What we are heading towards is almost like a seal of approval---a mark of excellence," Clark said.

"We knew that while we were developing the survey it would become the basis of what we would look at to evaluate companies and how they operate to come up with a standard of best practice," Scotto said. "It should fulfill a lot of due diligence that a lot of carriers would perform on a program administrator. We're going to really raise the level of expectation and competency from program administrator to program business."

Clarendon's Weidman said such a designation will make the evaluation process between carrier and program manager much more effective and efficient.

"Say we are looking for new relationships and opportunities; if we can identify an agency that has met certain best practices, I would gravitate more to a general agent that has met those practices," Weidman replied.

Target Markets creates another level for program administrator members to aspire to, said AIG's Moran.

"Our challenge and our hope is that at the next [cycle] go around that we've gotten smarter and we do not create the same disruption in the program marketplace," Moran said. "There were program administrators that actually went out of business because they couldn't find a place to put their business," Moran replied, referring to program conditions during the last hard market. "Perhaps through an association of program administrators we can all raise the level of professionalism."

Targeting technology

An area where the association could really make a difference for its members is in technology, Seifert said.

"Technology is huge," he said. "It's probably the single most important issue we are all going to facing over the next three to four years."

Seifert, who has made technology a top priority of his tenure as president, hopes the association's mass will entice technology vendors to create a technology solution that will better meet the needs of program managers.

"Is there a way that we could take our collective needs and have a program developed that meets 70 percent of our needs and share collectively in that expense, and then be able to customize the last 30 percent to your own organizational needs?" he asked. Seifert added there's a lot of money wasted in current technology programs available to program specialists because of trial and error when purchasing new systems. "We're too small a universe," he said.

Part of the technology problem program administrators face is understanding and knowing how to effectively and accurately collect critical data.

"One of the things Target Markets is working on is helping members realize exactly what kind of data they need to be collecting, and through our technology committee trying to come up with ways to gather that data," Seifert explained.

At one time or another every program administrator faces the fact they have to move a program, and quickly, he said. "If you don't own your data and don't control your data and haven't collected your data, it's a very difficult and expensive to move your program."

Targeting the future

"This is only a four-year old association; it has come a long way in a very short period of time, but needs to continue to evolve," said AIG's Moran. "In the beginning a lot more emphasis was placed on the networking aspect, but as we go into the next few years we are trying to make sure education is more a part of this."

Weidman noted, "We want an association that is known for quality."

Scotto and Clark both agreed that the organization continues to take shape.

"Some of the things we want to see continue to evolve is a stronger committee component, a stronger involvement from the membership itself," Scotto said. "The only way we're going to stay viable is if we are providing what our members need."

Clark added that to be a member the company must be involved. "When you sign up we expect you to be on committees, come to meetings. . . we expect you to participate," he said. "The idea is about making our businesses better. We don't need 1,000 members to make each other better."

Target Markets has an unofficial membership cap of about 250-300 program administrators.

"We don't want people to sign up and pay their membership and sit back," Scotto said.

Members are also pushing for increased access to markets, notably access to markets that will write new programs or smaller programs.

"The biggest challenge today is start ups," Moran said, who noted that AIG is one of the few carriers that writes new program business today.

While the association has reined in most major carriers writing program business, they are still targeting regional or international carriers that will do smaller programs, Clark said.

"It's very important that we get the carriers who will do the smaller programs," he said. "Every one of us in our membership committee was a small program at one time. One of the most significant issues in our business is how do you grow or how do you start of a new program?"

"Our goal is to find companies that are interested in forming a relationship with a lot of the administrators in our group and are looking to become a business partner with them," Scotto said. "Whether that's a big company that has a lot of programs or a smaller company that is looking to expand."

Seifert noted that the program marketplace is definitely growing in the right direction for Target Markets members.

"A lot of the reports now suggest that the insurance companies that really make money are the ones that develop specialization," he said. "And that bodes well for us because what a good program manager brings to the table is a level of underwriting experience that the companies can't match. So as the companies realize their best shot at profitability is to rely on specialization, they're going to rely more on program managers to provide that."

Target Markets Mid-Year Meeting

How to Market Program Business to Carriers: Tell All, Honestly

By Andrew G. Simpson

Program administrators, painfully aware how difficult it can be to get insurance companies to sign on, improve their chances of program success when they tell the complete story of their operations and history, including mistakes made and lessons learned. "Be prepared to let the carrier know everything that's happened and what you expect," one executive advised at the recent Target Markets Mid-Year Meeting in Baltimore.

Carriers selecting program administrators require considerable due diligence because they are handing over the pen to them, in effect making the administrator a branch of the company, explained Fritz Seifert, who develops new program business for AIG Programs.

Seifert was joined on a "How to Market Your Program to Carriers" panel by C. Douglas Bennett, senior vice president at Benfield, where he leads the program unit, and Lois J. Massa, who shared some rules from the program handbook at GE Insurance Solutions where she is a vice president responsible for new program business.

C. Douglas Bennett *Fritz Seifert* *Lois J. Massa*

"It's important to pick the right partner," AIG's Seifert stressed, noting that the right partner might be someone who does not have a perfect track record but who has learned from the lessons of the past.

Carriers' eye for the PA

GE Insurance Solution's Massa explained what it is that carriers are looking for in a program and an administrator.

"They're looking for, among other things, knowledge of insurance on the part of the broker, and that includes expertise within the segment that's being targeted," she began.

Carriers also want their program administrators to possess the "analytical tools and skills" that are needed to understand the numbers of the business, including losses, rates and cycles.

Insurers will look into the past performance of brokers, checking into their track records and looking for proof that they know how to improve a book of business.

Finally, Massa noted, insurers want program managers they can trust. "We want to trust that you will you look out for our mutual interests," she maintained.

"The ideal program administrator relationship is one where both parties must be willing to invest the time and weather the storms for the long term," Massa continued. "Carriers don't want to give up on programs either, believe it or not."

Submitting proposals

In addition to desiring certain qualities in their program administrators and brokerages, carriers also have preferences in how program proposals are submitted to them.

"It is important to know how to get your program to the top of the pile," Massa noted.

Massa suggested that agents and brokers start with an executive summary, which can be an "elevator speech" that covers the who, what, when, where and why of their operations and proposals. This can be followed by a one to two page summary of the program, including the outlook, the opportunities and key facts. This abbreviated package is to gauge interest before preparing a complete submission with all the data. It should be sent electronically whenever possible.

A formal program submission to GE Insurance Solutions should include an agency overview, a program overview, and a typical account overview.

The agency overview must include a history of products, production, a staff profile, as well as biographies of the principals and the senior program underwriters.

The program overview should discuss the business segment targeted and the lines of business and limits proposed. It should also include premium and loss data, including the catastrophe analysis if possible.

Massa strongly recommends including

What Lines Program Insurers Like, Dislike

Insurers' appetite for targeted insurance programs still favors larger deals and shuns workers' compensation risks, according to one expert's analysis of conditions.

Benfield Inc. Senior Vice President C. Douglas Bennett offered advice on the program insurance market from the perspective of a reinsurance expert who helps brokers assemble programs at the 2005 Target Markets Mid-Year meeting in Baltimore.

Bennett maintained that the program market has stabilized, so that it is now "better for getting carriers' attention" than it was not long ago when major players were exiting the field.

However the market remains dominated by large, national carriers that are mostly interested in $10 million to $20 million programs. There is some new capacity, mostly for excess and surplus business, but still not much for smaller programs, according to Bennett.

"This is not a reinsurance-driven market," he further explained, noting that relatively few carriers are buying program-specific reinsurance.

In terms of lines, carriers appear interested in inland marine, miscellaneous professional liability, as well as excess and surplus property and general liability.

On the flip side, carriers do not appear interested in workers' compensation, long haul trucking, directors and officers liability, non-specialized auto liability, small business owners or umbrella business, according to Bennett.

Bennett suggested that the market needs more capacity for "quality, experienced, start-up" managing general agencies and it could use more management teams that are strong in underwriting. He would like to see better capabilities by carriers for handling highly specialized programs, including better data and benchmarks. Also on Bennett's wish list: new entrants with appetites for workers' compensation, commercial auto and umbrella business and more alternatives for smaller programs.

What are reinsurers looking for in programs business? Well-focused, specialized programs where carriers perform active due diligence and where there is some risk bearing for both the program administrator and the carrier. Most important, he added, reinsurers look for rates that are actuarially justified. IJ an independent actuarial analysis. "Our actuaries look at it but they don't always agree, so the independent actuarial analysis provides a benchmark," she remarked.

The submission should explain the underwriting and marketing plans and show how the guidelines are clear and specific to the targeted market.

In terms of target industry, the carrier will want to know the trends in the industry, the future of the industry, whether it is stable or growing, what regulatory issues it may be confronting, and how the economy affects that industry.

Massa also seeks information on the retailers picked for the program and whether any associations have endorsed it. Administrators must also reveal their specific experiences with other programs and carriers. "Give the good, the bad and the ugly," Massa said. "Be honest about your results, good and bad, and explain why."

> *"Be prepared to let the carrier know everything that's happened and what you expect."*

AIG partners

AIG expects a lot from its program partners. AIG candidates should understand what it takes to achieve profitability, how to monitor rates, how to be proactive in analyzing and meeting market changes, and be open to actuarial analyses.

"Proactively identifying risks exposures and trends can be a key to the success of a program," Seifert said.

Seifert wants to see audited financials and wants proof that internal financial controls are in place.

Every submission to AIG must include an actuarial analysis. Program administrators with their own staff actuaries are looked on with favor. AIG does an actuarial review of proposals as well but only after the program administrator has submitted his own.

"We take this very seriously. It can determine the rate adequacies and the profitability potential," he added.

In the claims and risk management arena, Seifert looks at whether there are any conflicts of interest (for instance, if the program administrator is also a third party administrator); if the broker has the ability to spot claims trends and manage litigation, and whether the candidate understands the impact of large losses. Regar underwriting, AIG wants to know how the pricing criteria were determined and if there are regular audits.

AIG even checks into the program administrator's automation, computer security and disaster plan.

Competitive advantage

Benfield's Bennett urged program marketers to make it clear how they plan to compete by identifying their "sustainable, competitive advantage" in their proposals to carriers. Examples of competitive advantages might be a better pricing model, a better risk selection process, cycle management experience, excellent loss control or risk management, custom policy forms, a closed distribution system or sophisticated claims management systems.

Massa, noting that there are now more than 30 carrier members of the fast-growing Target Markets association, stressed the importance of quality. "Carriers will still expect due diligence and professionalism and expertise regardless of how many carriers are out there," she commented.

While most carriers look for deals with $10 million to $20 million in premium, Seifert noted that AIG also has an incubator program for small programs of $1 million to $2 million. IJ

Laying the Groundwork for New Insurance Programs

By Scott Reynolds

While many new insurance program ideas emerge from various sources, very few result in the actual formation of a program. It is generally only those that are well-thought-out, include substantive information, and are well-presented that have a good chance of getting off the ground.

Program opportunities arise in two general ways: the formation of a new program, starting from little or no renewal book; or the transfer of an existing program either through a sale or carrier replacement.

Before getting into the nuts and bolts of building a successful program, it is important to consider the primary reason for the formation of an insurance program.

While there are a multitude of reasons for the formation of a program, it is easier to think of it in two main categories: 1) programs are often formed by the fact that a particular class or industry group is not sufficiently served by the standard market, and/or 2) programs are often formed out of an entrepreneurial opportunity to "build a better mousetrap."

Establishing a new program

One scenario that might lead to a new program is targeting the underserved class. Often times a certain class of risks find themselves painted with a broad brush as part of a larger grouping. This may have the effect of perceived excessive rates. A program can be designed with an underwriting philosophy to carve-out classes of business and treat them according to their unique characteristics. If successful, insureds in the program should see rates and structures tailored to their risk characteristics.

Another scenario might be targeting an existing book of business controlled by a producer. An insurance producer, over time, can develop a book of significant size with a specific class. The relationships with their clients coupled with becoming intimately familiar with the class and their issues leads to expertise that may surpass that of a general underwriter. This expertise has real value and is often the major selling point in getting a carrier to back a program.

Another option might be targeting association production. Unique classes of business are quite often represented by one or a few trade associations. These trade associations bring many individual businesses of like kind together for multiple purposes. . .from political lobbying to group purchasing. Often times, a key role for the trade association is to arrange for insurance coverage through a program designed exclusively for their members.

Some considerations

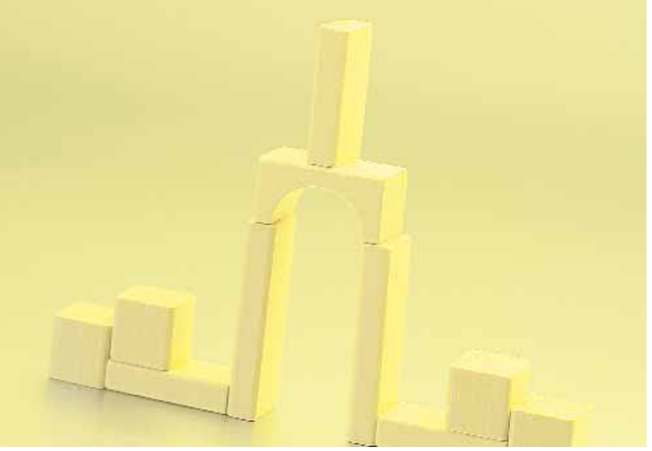
There are a series of steps and considerations that need to be taken in going from the initial idea all the way through actually placing risks in the program and then maintaining the health and success of the program.

Clearly, a successful insurance program must be backed by a risk-taker. Many insurance programs are actually embedded within an insurance company with all staff being employed by the insurance company. The focus of this article is on those programs which are independently structured. . .where the relationship between the carrier and the program is through an appointment and a letter-of-authority rather then as an employee/employer.

The search for a carrier should be based on the desire for a long-term relationship. No one wins if the carriers are constantly being replaced. Carriers who already have successful experience with programs are the likely candidates, but even carriers that do not currently support program business may be a good fit.

Once the program business proposal is in place, the selection process in choosing a carrier can be outlined as follows:

Identify potential carriers. Carriers can be identified as potential candidates through many sources. It is useful to narrow (rather than a shotgun approach) the search down to a very few potential partners.



Initial discussions. In this simple yet critical step, a phone call or meeting with a key contact at the carrier to discuss the idea at a high-level will ensure that there are no major obstacles.

It is important for the carrier to acknowledge that they will consider the plan once formally presented. This step is enhanced by providing them with a high-level document describing the opportunity. Providing a thick, detailed business plan too early in the discussions can result in the plan never being read.

Mutual confidentiality agreement. Once the select carriers have been identified and they have expressed an interest in proceeding with more detailed discussions, it is time to provide the formal program submission. It is beneficial to have a mutual confidentiality agreement (CA) signed by both parties at this stage. Once the CA is signed, both parties should be comfortable with a free flow of information pertaining to the potential program. Confidentiality agreements can be specific to the program being considered or may be broader and apply to any information for a specified period of time.

Key components of submission

After establishing mutual interest and signing a CA, it is time to provide the carriers with the formal program submission.

Overview of opportunity. Describe the parties involved, class of risks, lines of business, premium potential and expected underwriting results.

Market analysis. Describe the population for the targeted class and their risk management issues. It is within the market analysis that the purpose of the insurance program is established. Existing competitors should also be mentioned.

Actuarial analysis. Virtually all programs will be reviewed by the actuaries at the respective carriers. A program presented with an actuarial analysis already performed increases the likelihood of success dramatically. An existing book of business of $10 million annual premium or more generally has the credibility to stand on its own with an actuarial analysis. Anything smaller than $10 million must be supplemented with industry information.

Industry information can prove to be exceedingly difficult to obtain. To compound the problem, the only industry sources for historical class-specific premium and loss data are NCCI (for workers' compensation) and ISO. Most carriers will not accept the ISO detailed class information as credible since it is generally several years old and subject to problems in the data submissions from various carriers.

Underwriting philosophy and guidelines. It is critical that the carrier understand the selection and pricing philosophy for the program. Getting very specific in the area of class selection in the business plan provides clarity to the carrier. Providing a copy of the underwriting guide can help the carrier gain clarity in how individual risks will be treated.

Presenting the team. Providing an organizational chart along with biographies of the program staff is very important.

Portfolio analysis. Providing as many views of the proposed book is essential, accompanied by graphs to help visualize the make-up. The most critical slices are class, lines of business, geography, size of risk, and production sources.

> *Most important in any program is the need for it to even exist.*

Future plans. Planning for the upcoming year and subsequent years is a key process at every carrier. As such, the insurance programs which the carriers support need to provide future plans.

Other key areas

In addition to the carrier submission, there are several areas which should be considered when structuring a program.

Class of business. Not every class of business is suitable for an insurance program. Classes ideal to a program are those that are unique and not well-understood and correspondingly not well-served by the standard market.

Superior expertise. A successful insurance program requires a significant competitive advantage over the standard market. Key is the head of the program or program manager. The program manager should not only understand the insurance issues related to the class, but should also possess an intimate knowledge of the general operations of the class of business.

Size of risks. Insurance programs are generally characterized by small-to-medium sized risks. Larger risks will usually catch the attention of standard market underwriters and brokers. While a program should be flexible enough to handle the needs of larger accounts, the business plans usually will consider only small-to-medium risks in the source of production.

Service tailored to class. The product offering in the program should be tailored to the class of business. Inherent risks within the class, not present generally, should be clearly addressed through coverage clarifications or perhaps exclusions. Loss control services should also be tailored to the class.

Knowledge of underwriting results. Is it long-tail business? Frequency driven in nature or severity driven? Has the regulatory environment changed such that the nature of the claims can also be expected to change?

Team selection. The team which supports the program should be carefully selected. Special consideration should be given to those who make underwriting decisions and price the business. Those who correspond with clients and markets should also be well-versed in their respective areas of responsibility.

Technology platform. Today, technology is no longer a "nice-to-have." Rating, document production and management, business tracking, and marketing all require state-of-the-art technology.

Conclusion

Most important in any program is the need for it to even exist. It should be clear that programs are not simple to establish. They require talented staff, an infrastructure for underwriting and policy service, regional and national marketing, and a contractual relationship with one or more risk-bearing entities. The carriers requires an underwriting profit, the insured requires good risk management at a reasonable cost, and the program manager requires enough commission to pay expenses and generate a profit. If all these are well established in the program proposal, there is a good chance of success. IJ

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Aim for the Bull's Eye: Focus on Market Characteristics Improves Programs

Drilling Down into a Market's Data Unearths Insights Conventional Methods Miss

By Fritz Yohn

The value of specialization and target marketing in improved insurance performance has been well proven over the past 15-plus years. Ironically, however, a good many target market programs still ignore elements of success and leave real performance potential on the table.

How so? Because too often marketers are satisfied with a definition of a target market that's as broad as the side of a barn, rather than digging in and doing the analysis necessary to hit the bull's eye.

Drilling down

Program managers who make the effort to drill deeper into market characteristics can uncover:

- ways to avoid excessive distribution costs,
- market-distinguishing rating factors,
- loss prone sub-markets,
- clear loss prevention opportunities and underwriting considerations, or
- coverage and service needs that can translate into a competitive advantage.

The challenge to defining a target market, of course, is to strike an appropriate balance in the conflicting elements of premium potential and the homogeneity of risks. There must be sufficient available premium to support program costs and earnings, but not so much potential that the market is likely to attract too much competition. Additionally, if the targeted risks are too dissimilar, coverage and service needs will be less clear and less well met, or hidden segments of the market may yield adverse selection.

Below the surface

Consider the taxi cab market. On the surface this appears to be a pretty homogeneous segment. While there might be underwriting considerations specific to firms operating in major metropolitan areas, the exposures are pretty apparent. With more than 56,000 firms, 83,000 employees, nearly 300,000 vehicles, and revenues of $3.6 billion, the market sizing facts for the taxi segment look attractive.

Conventional targeting methods tend to focus on preserving the maximum available market premium. So, underwriting parameters are kept as broad as possible and the geographic "net" is widely thrown. Programs are filed in all 50 states, starting with the high potential states. In the taxi market, as expected that's the large-population states like New York, Illinois, Texas, California, Pennsylvania and Florida.

Right off the bat, there are tremendous implementation challenges, both from territorial diffusion and the fact that the program is trying to gain traction in states that are inherently competitive. Instead of stopping here in the target market definition, probing market and demographic data more deeply helps unearth valuable insights into this segment that can improve prospects for a taxi program.

Fleet vs. non-fleet

A look at the size composition of the taxi industry, for example, is especially illuminating. Not all taxi operations are of the small, non-fleet variety. In fact, understanding the fleet versus non-fleet composition of the taxi cab market can be pivotal to designing and pricing a program that produces the desired performance.

Large fleet taxi firms are a bit thin on the ground to support the program aspirations. But middle market taxi accounts, firms with from 5 to 49 employees, comprise 35 percent or more of the available exposures in 10 states. Among those states some possible surprises emerge, such as Arizona, Wisconsin, Colorado and New Mexico. Not only are these states likely to be less well served by the competition, they are largely contiguous offering the potential of more cost effective servicing. A tighter geographic focus also means that it's practical to match the program to the conditions in key states. A closer look at revenue forecasts reveals that these middle market accounts are expected to experience stronger growth over the next few years, another plus.

A productive niche

A more homogeneous set of risks, high geographic concentration and stronger projected growth...all these characteristics augur well for middle market fleet taxi accounts as a productive niche market program.

Of course, things still could go wrong. Incorrectly set rates, either too high or too low, could doom this budding niche market program. Actuaries say that the fleet/non-fleet relativity is one of the final pieces of the commercial auto pricing puzzle to be calculated, but in no way does that place in the sequence minimize its importance. In fact, getting it right on a program targeted to middle market fleets is critical since there are no countervailing non-fleet accounts to offset its impact.

Inadequate loss control is another potential pothole. There are 1,001 reasons to skip loss control on the smallest, owner operator taxi accounts. In mid-size fleet accounts, in contrast, adequate and aggressive loss prevention can make all the difference between a successful program and a money loser. Moreover, pattern loss frequency on these larger-sized firms is likely to be highly predictive of need. That predictability enables detection of problem accounts much earlier in the policy year, and application of loss control early enough to affect a turn around on at least some accounts.

While taking a deeper look at the market segments being considered for a program may not be a sure fire formula for a program bulls eye, it clearly is a means of tipping the performance scales decidedly in favor of the savvy program manager. IJ

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