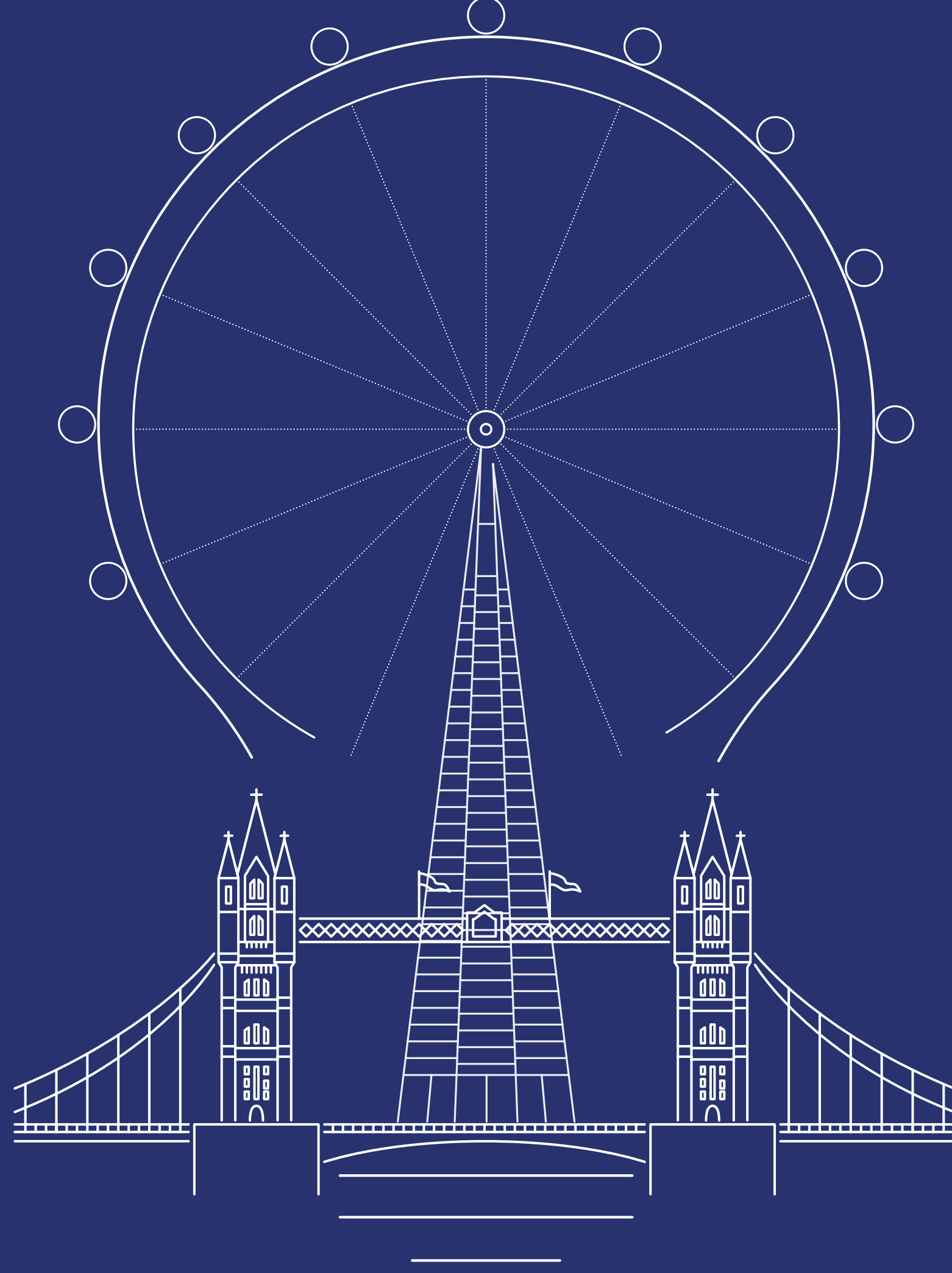


# Proceeding with caution

A survey of MGA and insurance carrier opinion on the state of the MGA sector



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# Contents

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## Proceeding with caution

Welcome to our second report on the MGA market – and one which is set against a backdrop that could not be more different to our first.

Last year, our **first research among MGAs and carriers** made it clear that the Lloyd's market reform programme was having the desired effect. The market, which had been perceived by many as supporting under-performance and inflated costs for far too long, had a sense of increasing caution. Over two thirds of MGAs and carriers agreed that they were heading into a more competitive environment. A tight focus on quality also meant that capacity was in short supply, and for many small MGAs, Brexit still loomed large.

However, despite these concerns, participants themselves believed that the worst of the market contraction was over; and carriers retained their faith that backing the right MGA could be a route to profitable growth. Over half of carriers anticipated that there would be more MGAs over the coming year, and almost two thirds of MGAs were confident there would be more capacity available to them. Perhaps because of this confidence, diversification was also on the agenda, with almost a third of MGAs contemplating adding new lines.

### Key findings - at a glance

- Although 88% of carriers and 83% of MGAs agree that setting up a new MGA will be harder this year, existing players feel secure
- 64% of carriers and 66% of MGAs think the number of relationships will hold steady or increase in 2020, even in a hardening market
- Over half (51%) of carriers say the impact on capital availability will be positive or neutral post COVID-19
- Carriers will use MGAs to give access to new markets and provide technical insight and capability
- Cost is no longer a top priority for carriers – cited by only 18% in 2020 (35% in 2019)
- Carriers have three 'top asks' of MGAs cited by over 50% of our sample: access, insight and conduct
- MGAs have one outstanding priority – market reputation cited by 67%
- 96% of carriers and 84% of MGAs believe the shift to electronic placement and data standardisation will accelerate as a result of COVID-19
- Lloyd's has become less desirable as a home for developing MGA business over this last year as market reforms take time to bed in

## Proceeding with caution

### The COVID lightning strike

This year, views on the sector have become more nuanced.

Carriers and MGAs are overwhelmingly in agreement that setting up a new MGA will be harder this year. That view was given before the pandemic struck. But the model is robust. Two thirds of carriers and MGAs think the number of relationships will hold steady or increase in 2020, even in a hardening market.

In a subsequent addition to the research looking specifically at the impact of COVID-19, on balance opinion was positive on how the pandemic would affect capacity. Over half (51%) of carriers felt the impact would be neutral or positive. And although MGAs were more nuanced, many commented that any negative impact was likely to be short term.

Exploring that sentiment in discussion with carriers and MGA leaders, it is clear that carriers have borne the brunt of the claims and reputational impact of COVID, and this has impacted their appetite for new business. Their focus has been on renewals and blue-chip 'secure' business. But with carriers losing appetite for anything but standard renewals, bright MGAs have seen an opportunity. They report that they are receiving more enquiries and writing more new business. They are continuing to capitalise on their ability to be responsive to brokers in a market where many carriers have become more cautious.

For carriers, the ability to hold 'risky business' at arms' length via an MGA binder agreement is more obvious than ever, but it must be balanced by tightly controlled costs.

It is partly this cost-focused approach that has led to a shift in attitudes to Lloyd's market since our last survey although broad support for Blueprint One is encouraging in the long term.

It seems that last year's question: 'in a hard market, is there still a requirement for the extra marketing of an MGA and is it worth the commission cost?' has now been resoundingly answered, but only for the strong players, and perhaps, at present, for most, within the company market.

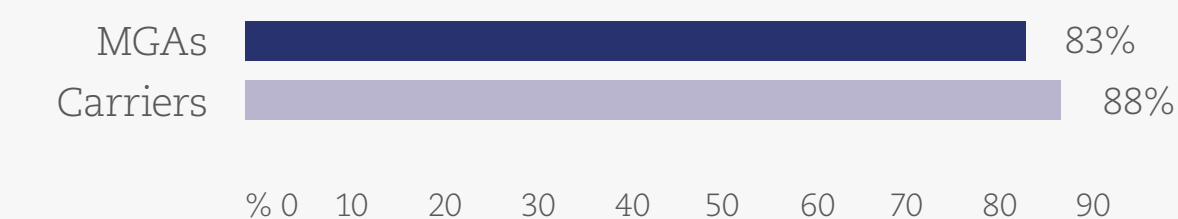
### Binary impact

The combined effects of COVID-19 and Lloyd's market reform have created a sense of flux and uncertainty but we expect there to be a crystallisation of views for carriers and MGAs around where and how they do business as the choices and implications of both changes become clearer.

Our research suggests that good MGA players will do better – they have read the mood of Lloyd's reform, they have their house in order, they 'own' their niche and can deliver for brokers who can't now always get the underwriters' attention. Big MGAs will also see an opportunity to increase capacity and accelerate growth.

But the smaller players, those with poor claims records or high expense ratios, may struggle to demonstrate their value. As we approach the January 1 renewal, this may translate into challenges renewing capacity, because carriers' newfound caution cuts two ways – not just in the business they underwrite, but also in extending their paper to MGAs whose abilities they doubt.

### Percentage who agree setting up a new MGA will be harder in 2020

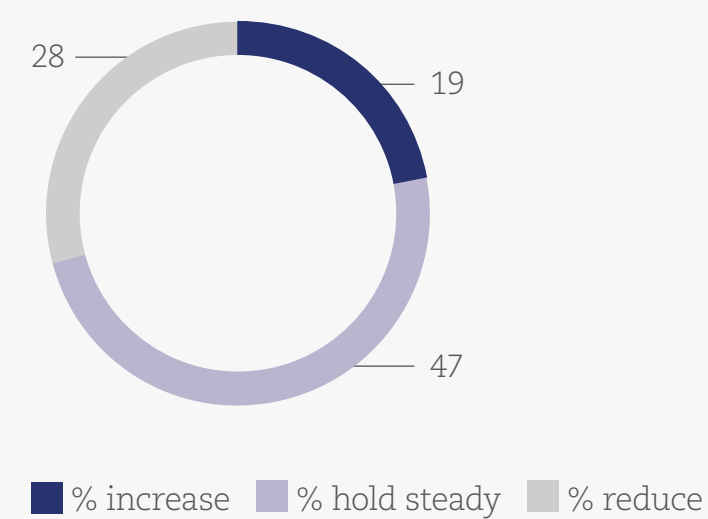


COVID-19 has accelerated an already hardening marketplace for MGA capacity. While MGAs with a good story and who add value will continue to thrive and be able to access capacity, those that haven't made money or who, bluntly, haven't added value may struggle. Overall, capacity providers are going to be more selective in 2020 and onward into 2021.

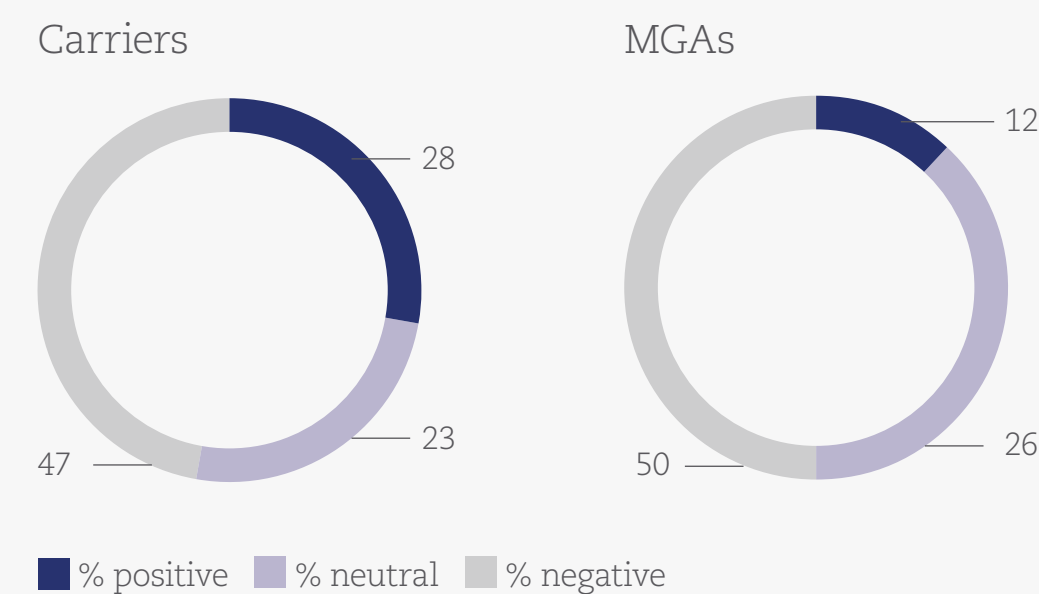
Charles Manchester, CEO,  
Manchester Underwriting Management

# Proceeding with caution

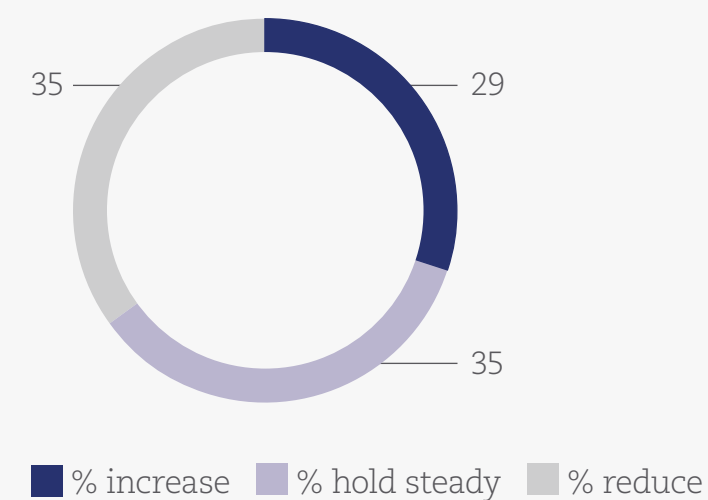
### MGAs - how will your carrier partnerships develop in 2020?



### How will COVID-19 impact capital availability?



### Carriers - how will your MGA partnerships develop in 2020?



Our survey shows that while the overwhelming majority of carriers and MGAs agree there will be more competition for capacity and a real flight to quality, they do not see the volume of capacity or the number of partnerships diminishing. In fact, broadly two thirds of MGAs and carriers believe relationships will hold steady or even increase and over half of carriers believe the impact of COVID-19 will be neutral or even positive for MGA capacity

Jennette Newman, Partner, Clyde & Co

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## Becoming more demanding

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In the new world order, it is clear that both MGAs and carriers are reconsidering their priorities and expecting more of each other. While carriers are doubling down on access, insight and conduct, MGAs' priorities are reputation, experience and a collaborative approach.

### **Carriers have become more performance-oriented**

Perhaps unsurprisingly, for carriers the focus is very much on efficient access to new markets and on technical insight and capability. MGAs need to add value by opening up new opportunities rather than simply amplifying existing carrier competencies. Strong performers that can add value in niche markets are valued highly.

In a world where regulation is only increasing, excellent risk management and a strong conduct record have also grown rapidly in importance.

The reduced focus on cost is surprising however. In our last report, concerns were principally around commission levels; as well as the cost of claims in some underperforming MGAs. These issues remain but have been sharpened by the events of the last few months.

We note that there is also less focus on customer service, claims and ease of doing business. Indeed, whereas in 2019 over 50% of carriers rated these attributes highly, they are now seen as critical by less than one-third of carriers.

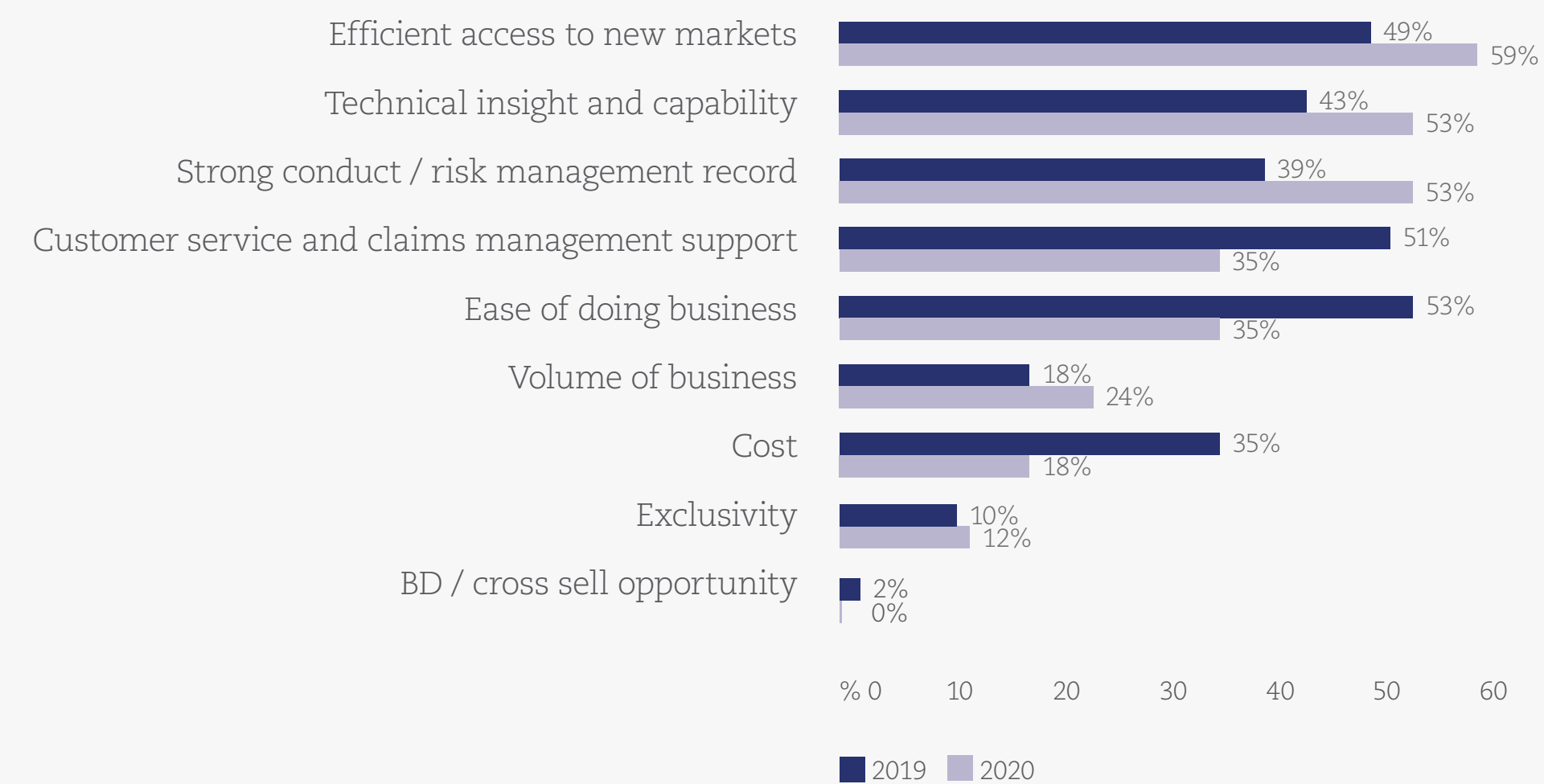
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Many MGAs reacted rapidly throughout lockdown because most are set up to be nimble and can shift their model quickly when needed. When brokers couldn't reach insurers as lockdown commenced, they were still able to talk to our own underwriters immediately and to continue trading using our platform which meant their clients could still access much-needed insurance services. I believe that the responsiveness of the MGA community has been very well received by brokers during the COVID-19 lockdown. Those MGAs have demonstrated their value by stepping up and delivering solutions when they were needed the most.

Catherine Bell, Chairman, Magenta Insurance

## Becoming more demanding

### What do you look for in an MGA partner?



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Even leaving COVID-19 aside, the landscape for MGAs is very different now compared to a year ago. They have had their way with commissions and terms for some time, but the shoe is now on the other foot. I believe only the strongest and best managed MGAs will thrive.

Bill O'Malley, Senior Vice President, Arch Insurance Europe

# Becoming more demanding

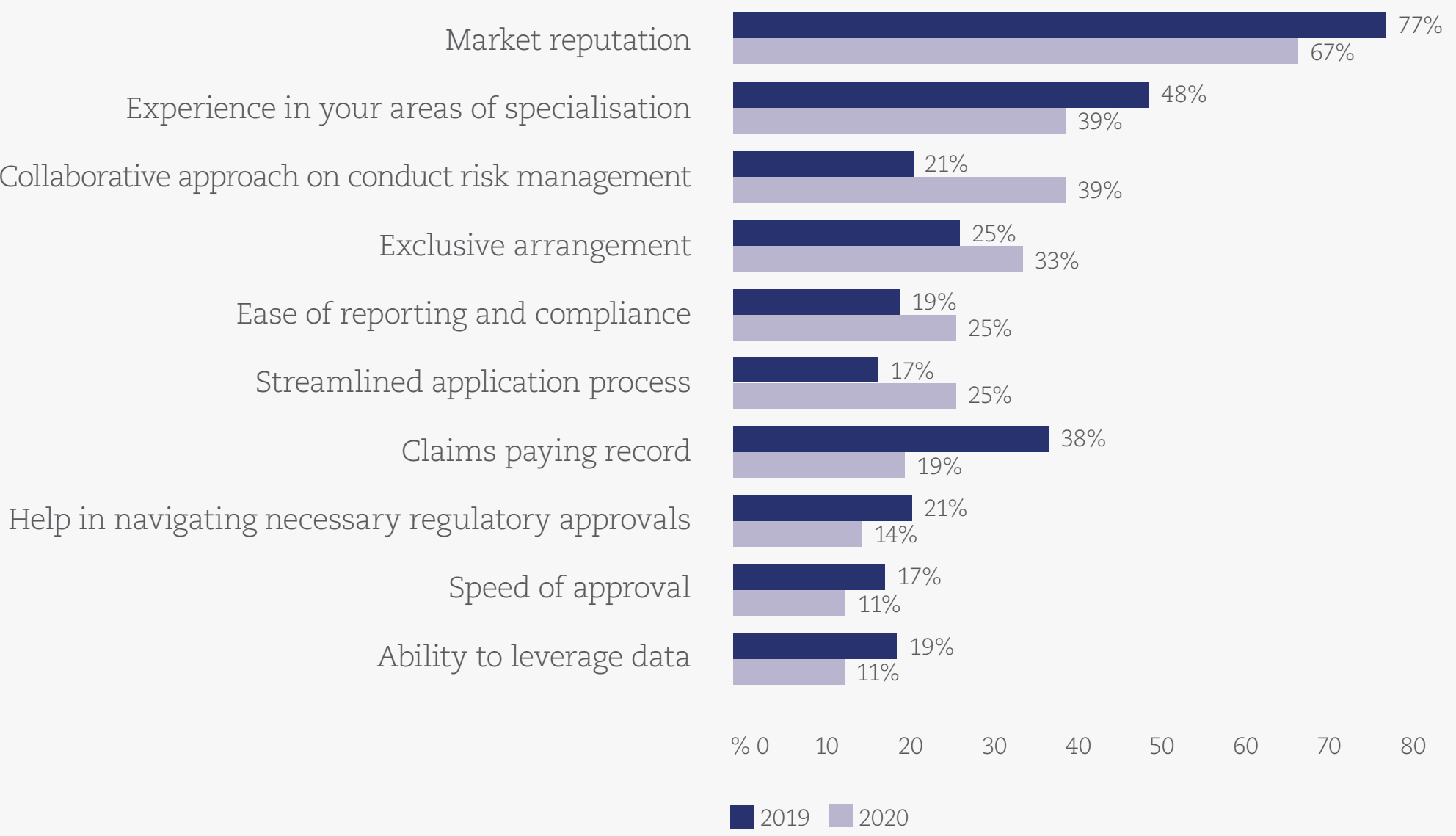
## MGAs prioritise security and efficiency of relationships

As in 2019, over two thirds of MGAs rate market reputation of their paper provider as their single biggest focus.

They also continue to prioritise security and efficiency of coverholder relationships. They show increased interest in exclusive arrangements with carriers (one-third see this as a priority); and also value shared experience in a particular field, as well as a collaborative and efficient process on reporting, conduct risk management and compliance.

Interestingly, there is a significantly increased focus on risk management.

## What do you look for in a carrier partner?





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## Becoming more demanding

### Technology (still) matters

When asked for their thoughts on the role and importance of technology in particular, carriers and MGAs are united in their view that it is still an important factor in the success of their partnership (64% of MGAs and 65% of carriers share this view).

Just under half of carriers (41%) say they will only partner with MGAs that have strong systems, as this is essential for efficiency; and half of MGAs say carriers often seek assurances, skills or support in this area.

Of course, technology is a basis for many other processes, which are also critical to carriers.

One respondent commented: “All roads lead to data, technology is the enabler”, while another respondent commented: “Alongside technology, understood and agreed actuarial and other processes are vital to shared data and understanding.” MGAs must be able to demonstrate that they have the right systems to deliver due diligence, bordereaux submissions and compliance (or be partnered with a credible third party who can).

In the post-COVID market, while MGAs are being encouraged to expand access and offer better insights, their coverholders are demanding better management information to ensure that they have visibility on the size and shape of the risks in their portfolio. In essence, carriers are using COVID as an excuse to up the ante on technology and reporting from MGAs.

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The shift towards technology was happening anyway. It is becoming more and more accepted that if ‘you can’t measure it, you can’t manage it’. MGAs now need to be able to negotiate their capacity based on information, not gut feel.

Karen Williams, Underwriting Development Management,  
MPR Underwriting

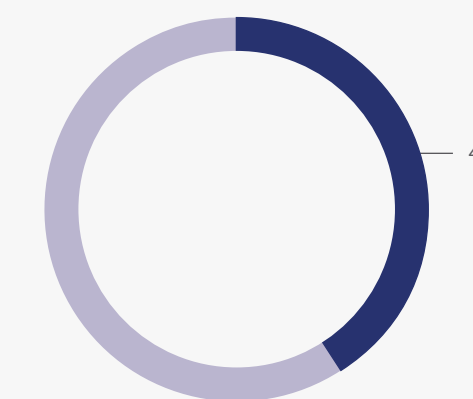
## Becoming more demanding

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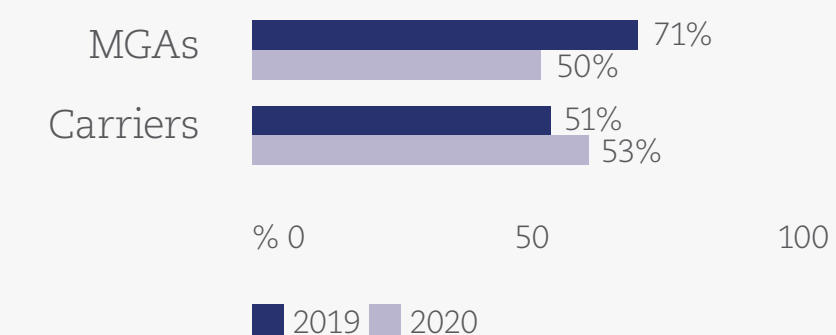
A collaborative approach is essential and we work closely with all providers. We hold lots of information, and the underwriters do want to see that and collaborate over how to respond to trends. But you need to use technology, not let it use you. As the old guard retire, we find the new generation are totally technology reliant, and as a result, sometimes more able. While this is a benefit, it's important not to consider technology the only important factor. Underwriters often rely on skill, their experience and their knowledge of you to decide whether they will take a line. You can't digitise all parts of that process.

Gary Johnson, Underwriting Director, Iprism

41% of carriers will only partner with MGAs that have strong systems



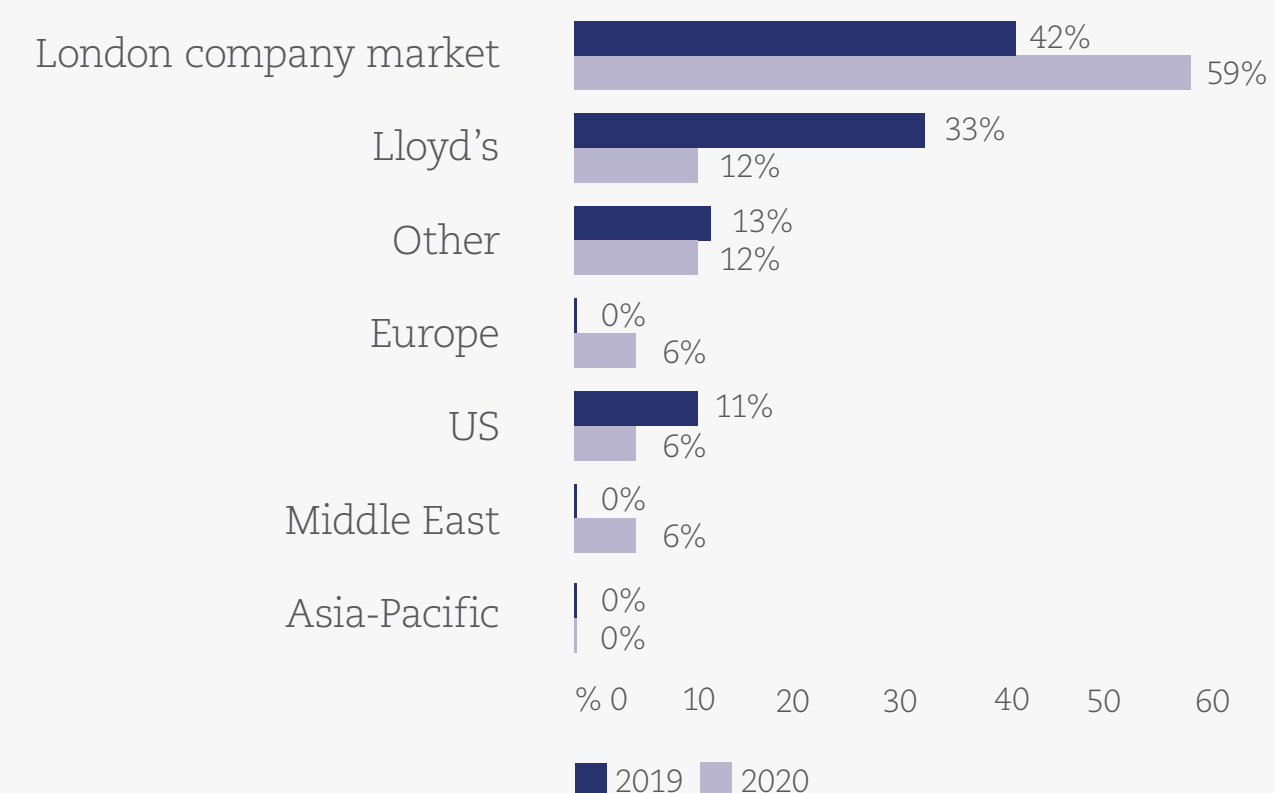
Is technology an important factor in your relationships?



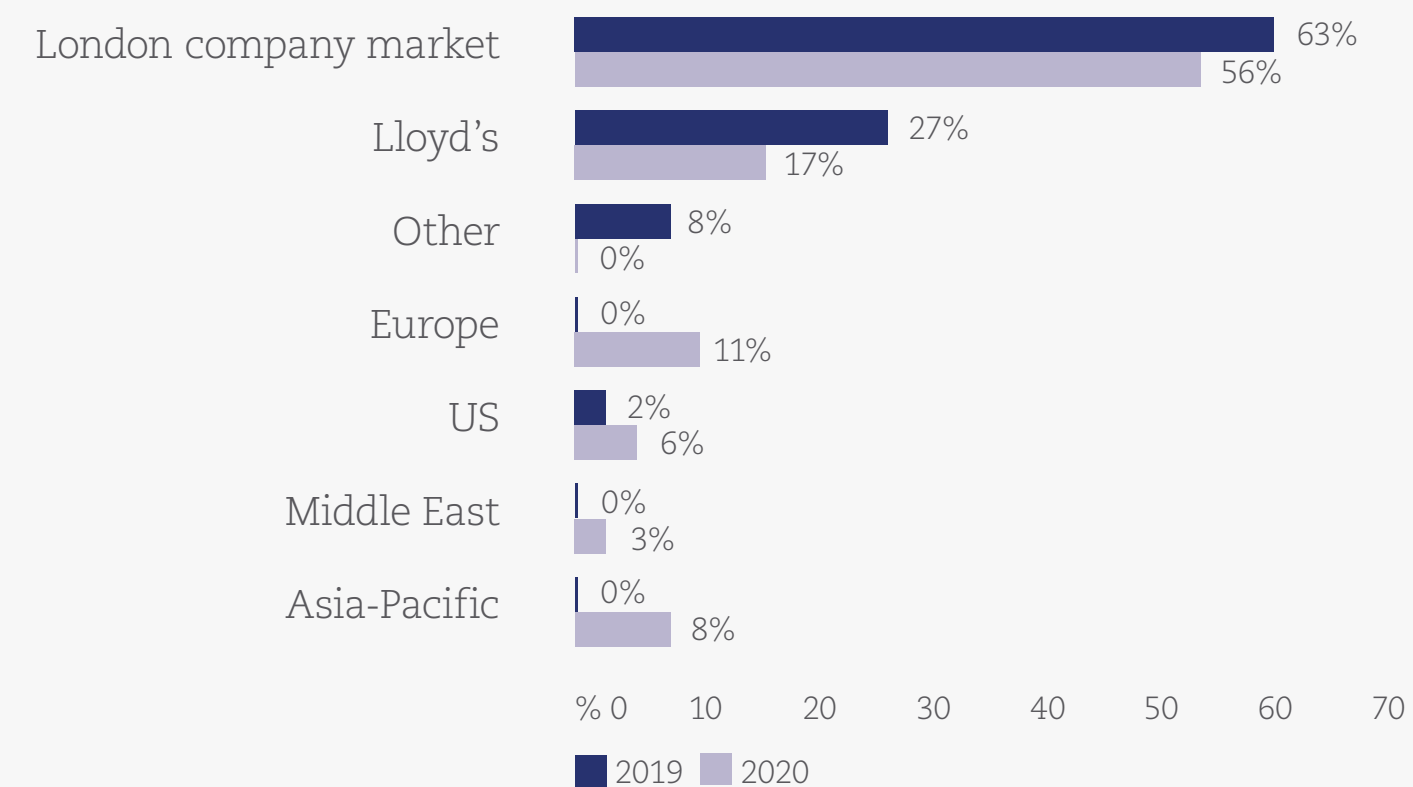
## Lloyd's reform agenda sees choices crystallising

In 2019, London was the preferred market for growing and developing an MGA business, followed by Lloyd's. But in 2020, while the London company market continues to dominate, fewer carriers and to a lesser extent MGAs are identifying Lloyd's as the preferred route for growth.

### Carriers - which environment will provide the best opportunity to grow and develop MGA business in 2020?



### MGAs - which environment will provide the best opportunity to grow and develop MGA business in 2020?



## Lloyd's reform agenda sees choices crystallising

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This has been an extraordinary year in which the appeal of Lloyd's as a market for MGA business has been impacted by COVID-19 in addition to the market reforms focused on profitability, cost reduction and enhanced underwriting discipline. However, our research demonstrates that MGAs remain a popular and efficient business model and we anticipate that appetite to operate within Lloyd's will return longer term as the reforms bed in and softer market conditions return.

Jennette Newman, Partner, London

It seems the Lloyd's market is losing share to other geographies, particularly Europe, the US and the Middle East and the impact of the Lloyd's remediation programme is having an understandable influence on MGAs due to the levels of scrutiny and costs of doing business.

One MGA respondent suggested 2020 will see partnerships changing, with more fronted solutions to access capacity from other markets and alternative sources. This would “enable MGAs to reduce cost and increase speed to market”.

### Support for Blueprint One as means to improve standardisation

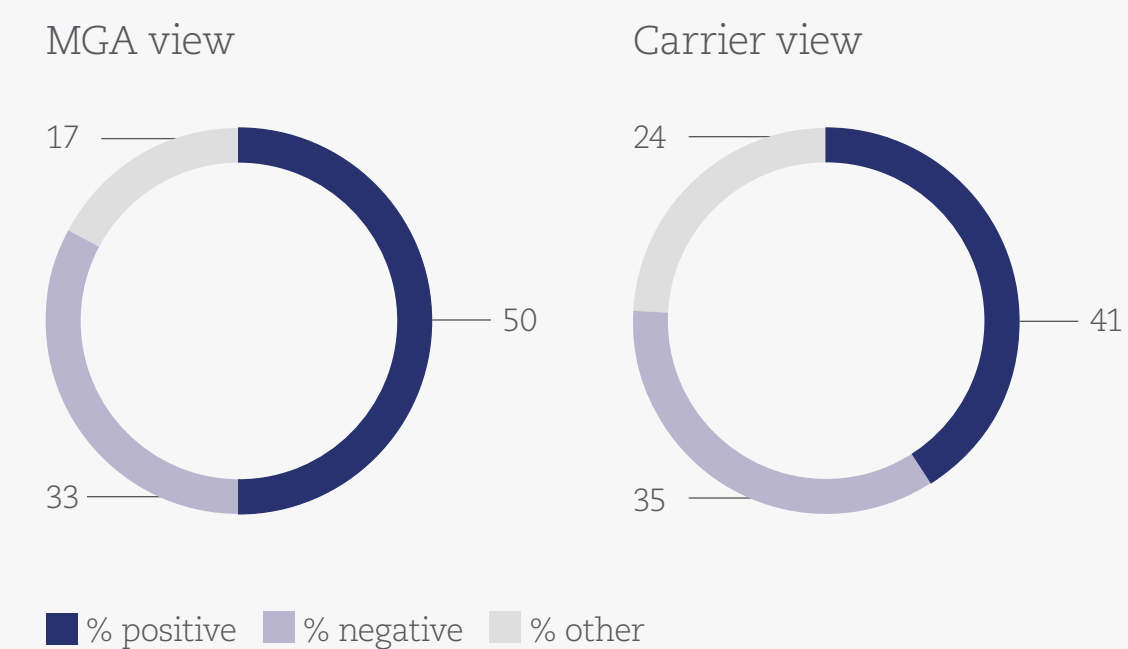
Since our last report, MGAs and carriers have had time to process the multiple reforms proposed by Lloyd's, most of which were published within Blueprint One. Overall, there is support for Lloyd's Blueprint One initiative among MGAs – 50% of whom are positive about its impact on the MGA market, while carriers' support is more muted, with 41% positive and 35% negative.

While one respondent commented that it should ultimately be “positive for ‘real’ MGAs.”, another sounded a clear warning note: “Unless an MGA requires a licence, operates in a very specialist class or has specific size or capacity requirements there is no longer any value in being a Lloyd's coverholder... The majority of UK MGAs simply do not, or should not, even have Lloyd's on their radar”.

MGAs (89%) and carriers(82%) both strongly believe there will be more legal and regulatory scrutiny over MGA businesses as part of Blueprint One.

MGAs (75%) and carriers (82%) also concur that Blueprint One will help drive progress towards standardising application and compliance processes at Lloyd's. This is an improvement on 2019, when over half (56%) of MGAs were concerned that not enough progress had been made towards standardising application and compliance processes.

### How will Lloyd's Blueprint One impact the MGA market?



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## 2020 vision: MGAs will target growth in London and global markets

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2020 has been a bumpy year; but there are many indications from our survey that 2021 could turn out to be a better year for MGAs, bringing benefits to both carriers and consumers.

Following a period of active remediation, a process accelerated by the impact of COVID-19 and the arrival of a hard market, opportunity has come knocking for versatile, eager and experienced MGAs who retain the appetite to write the sort of entrepreneurial business they were designed to take on.

In an insurance market looking for new structures to cope with changing patterns of risk, innovative thinking is likely to be both valued and welcomed.

So, with insurer balance sheets likely to return to stability by early 2021, and the remediation process likely to be completed during the next January renewals; a sense of cautious optimism pervades the market.

However, the focus for growth has changed. In 2020, the London company market is favored for now and new startups thinner on the ground. The overall support for Lloyd's Blueprint One initiative among MGAs would suggest that next year might see renewed support for the market as the reforms continue to embed themselves and stability returns more broadly.

Although 2020 will go down in history as the year in which no clairvoyant could have seen how the market would change, the ultimate impact may be to strengthen the relationship of well-organised carriers and their MGAs.

### Methodology

Clyde & Co used an online survey to gather the views of carriers and MGAs operating in the Lloyd's and London markets in February and again in June 2020 to understand the impact of COVID-19.

In total, 62 responses were received from MGA businesses and 64 from carriers.

Following the online surveys, interviews were conducted with a range of MGAs, some of whose views are quoted in the report.

Clyde & Co would like to thank the MGAA for their support in distributing the online survey to members and to all those who generously contributed their time for interviews.

## Services for MGAs

Clyde & Co is the leading insurance law firm in the world. We are a proud founder supplier member of the MGAA, providing claims advisory, litigation and handling services, regulatory advice and corporate/commercial services to MGAs and capacity providers in the UK and globally.

We understand the MGA market and the issues an MGA will face in dealing with claims or commercial issues; we have experience of advising many MGAs on coverage, defence of third party liabilities, employment and corporate issues.

Please do get in touch if you would like to know more.



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