The Insurance Insider's Market Sentiment Report – Delegated Authority

THE INSURANCE Insider MARKET SENTIMENT

in association with EY

Overview

Welcome to *The Insurance Insider*'s market sentiment report on delegated authority.

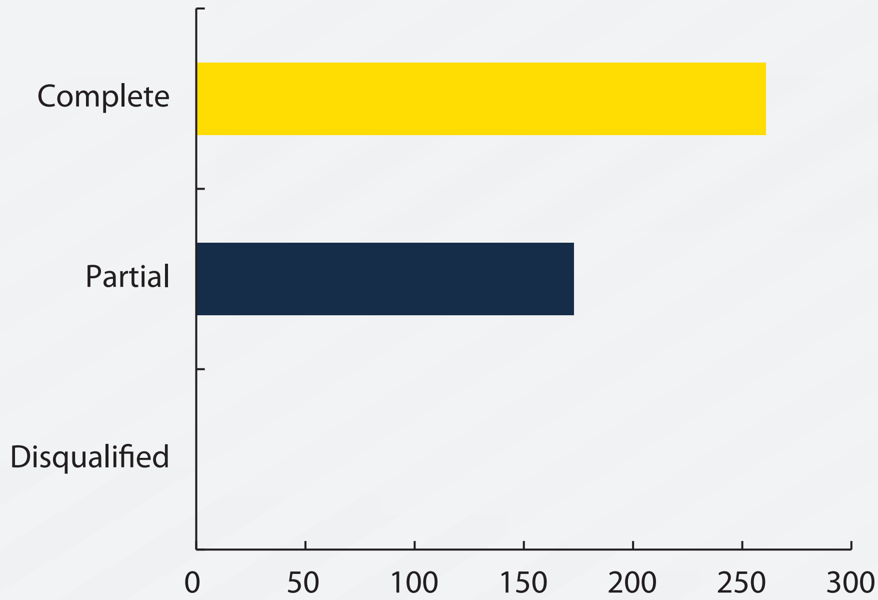
In association with EY, *The Insurance Insider* is conducting a series of surveys to better understand various sections of London market insurance.

This survey ran from to 14 May to 4 June and was undertaken by *The Insurance Insider*'s research team.

Insurance professionals – mostly brokers, underwriters and individuals directly involved in delegated authority, were invited to take part in the research study which explores the current state, potential growth and challenges of London's delegated authority market.

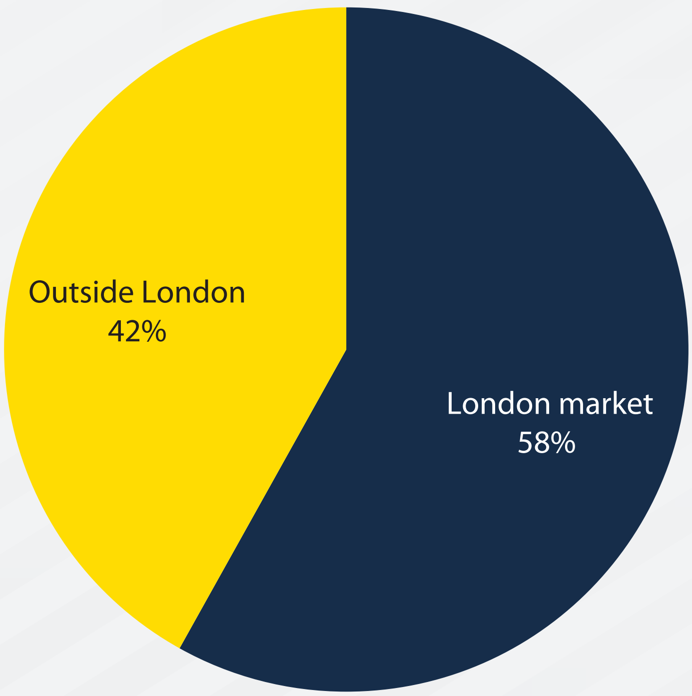
In total, 434 individuals took part in the survey which includes 261 complete submissions. All responses, complete and partial, are included in this report.

Response statistics



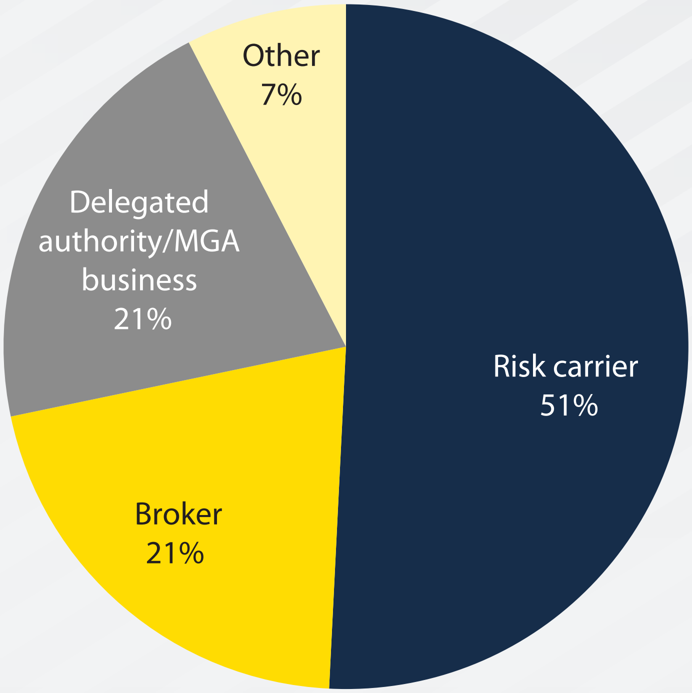
	Count	Percent
Complete	261	60.1
Partial	173	39.9
Disqualified	0	0
Totals	434	

Location of survey respondents



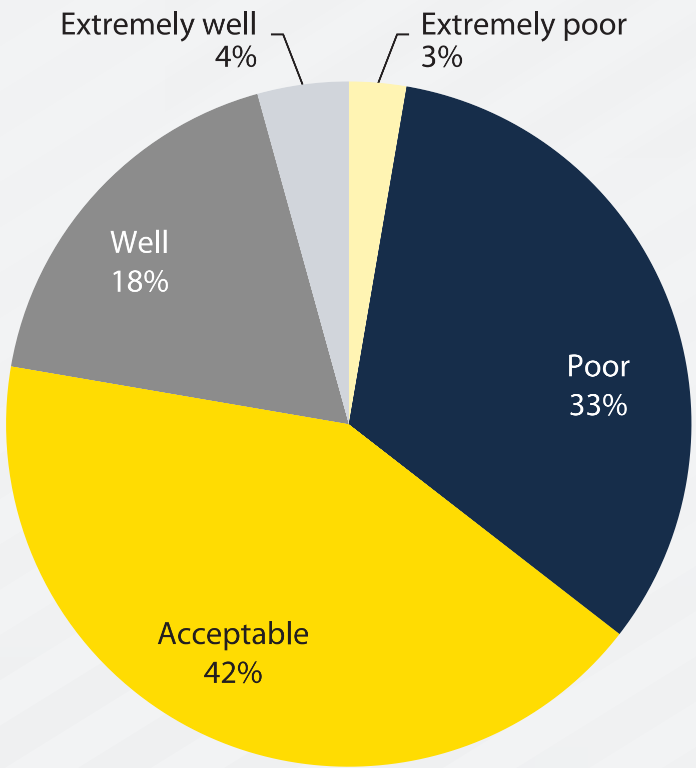
	Percent	Count
London market	58.1%	222
Outside London	41.9%	160
	Totals	382

What sector of the market do you work in?



	Percent	Count
Broker	20.9%	80
Delegated authority/MGA business	20.7%	79
Risk carrier	50.8%	194
Other	7.6%	29
	Totals	382

On average as measured by combined ratio, how well are delegated authorities performing?



	Percent	Count
Extremely poor	2.7%	7
Poor	32.8%	84
Acceptable	42.2%	108
Well	18.0%	46
Extremely well	4.3%	11
	Totals	256

The majority of respondents who answered this question chose a neutral response. Some 42.2 percent of participants thought that delegated authorities had an 'acceptable' performance, in terms of combined ratio.

Meanwhile, 32.8 percent of respondents chose 'poor' and only 18.0 percent chose 'well'.

In this question's comments section, respondents noted that performance varied across different lines of business. Some went on to say that delegated authorities operating in specialist sections of the market are performing well and generally have relatively low loss ratios. Respondents also thought that those operating in markets with many competitors have just an 'acceptable' performance.

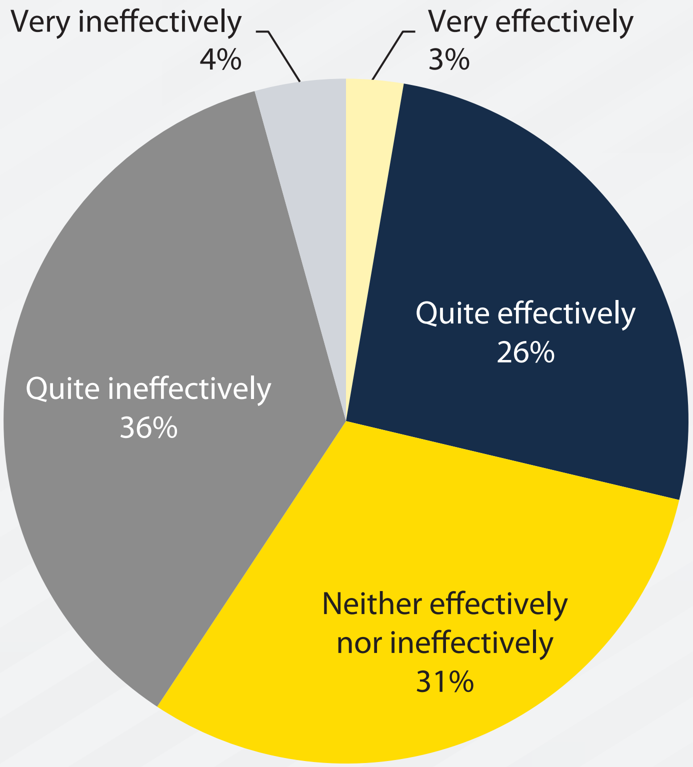
See respondents' comments on the next page.

On average as measured by combined ratio, how well are delegated authorities performing?

COMMENTS

Average acquisition costs can be high, resulting in a challenging combined ratio when syndicates operating costs are added on top. Delegated authorities often do not provide sufficient granular data in respect of elements such as rate change, business mix and other factors that syndicates and Lloyd's as a whole can use to effectively track performance. There are a number of well performing binding authority contracts in the market today, run by seasoned professional MGAs, however the recent Lloyd's planning process has prompted many MGAs to seek alternative capacity and to move as much off platform as possible - usually the good ones go at the same time as the bad (if not before).
As far as our Lloyd's books are concerned (and it probably holds true for all our programs on a combined basis) we are running roughly a 40% or so loss ratio on average on a GWP basis. So, all in the 70 to 75 percent net into the syndicates.
The challenge in part is the high levels of commission attached to many of the broker delegated authorities. Overall infrastructure and cost remains even for business where the task has been delegated as the brokers control the DA placement back to their own MGA/U.
Historically, binding authorities offered a local, overseas distribution with first class profits. Today, it's an abomination. Lloyd's is delegating just because it can. Looks and feels like a volume play, rather than profit. Lineslips operated by brokers have been hijacked into a device to earn more brokerage for placing open market business Consortiums, whilst growing, are greatly under-used (underwriters all want to be kings of their own kitchen!).
Due to cat losses in 2017 and 2018 the last couple of years have been largely loss making.
In lines in which there are many competitors and markets are "price takers", delegated authorities are performing on par with carriers, more or less. Delegated authorities that are operating in niche areas deliver ultimate loss ratios < 20% below that of the overall market, more than incremental acquisition costs.
There are good programs, and awful ones. It's a mixed bag.
We write quite a large number of delegated authorities and the performance varies greatly depending on territory and focus of the cover-holder. Overall the performance is acceptable but very marginal.
Significant variations between segments. Specialist areas still performing well. Generalists not so well.
Clearly there are class specific differences. The issue is not so much how well individual binders are performing, it is whether Lloyd's managing agents are able to support them due to their overall class of business constraints following the lower decile situation.

Is the market measuring the performance of delegated authorities effectively and accurately?



	Percent	Count
Very effectively	2.7%	7
Quite effectively	26.0%	67
Neither effectively nor ineffectively	30.6%	79
Quite ineffectively	36.4%	94
Very Ineffectively	4.3%	11
	Totals	258

Respondents provided mixed responses for this question. Nonetheless, more chose 'quite ineffectively' than any other option.

Some 40.7 percent of respondents thought that the market does not currently measure the performance of delegated authorities effectively or accurately (i.e. they chose 'quite ineffectively' or 'very ineffectively').

Meanwhile, 28.7 percent chose 'very effectively' or 'quite effectively'.

On reading comments to this question, it is apparent that the measurement of delegated authorities' performance contrasts across different syndicates.

Is the market measuring the performance of delegated authorities effectively and accurately?

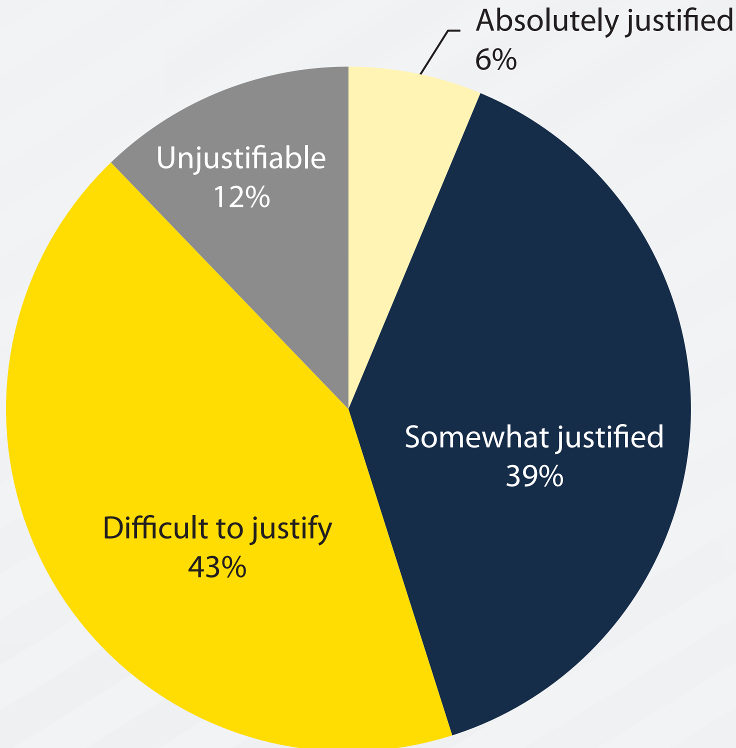
A common theme across comments was that carriers need to invest more in systems to improve data analytics which would enable the accurate measurement of performance.

Some went on to say that the availability of data lacks in certain sectors of the market while others indicated that the quality of data has improved over the last 18 months.

See respondents' comments below.

It is only recently that the market is beginning to track individual contract performance effectively and to implement necessary underwriting changes. The challenges here are that the distance between the Lloyd's underwriter and the ultimate insured can mean that it takes time before the impact of these changes is seen effectively.
Separate statistics should be kept for MGAs doing business in Lloyd's.
The measurement of historical performance of delegated authorities is adequate. In some cases, distortions to development patterns are flowing through later than ideal (and negatively impacting earnings from prior-period deterioration). Additionally, it is not clear who is responsible for identifying the proactive actions taken to improve performance that can be learned by examining historical performance. The carrier would benefit from such actions but might not have the granularity of data; the agent may not have the incentive to invest in and perform the detailed analysis.
Most insurers don't have the adequate investment in systems or in data analytics to understand where lines of business are or more importantly where they are heading.
Too many MGAs. Too many underwriters that want to write compared to enough quality to go around. Too many MGAs that are 'underwriters with a pen' or who sold to brokers, and have this become the same.
Insurers need to allocate their internal expense to MGAs more accurately to reflect the actual time and resource required to support an MGA.
The MGA perspective is that the space is vital and thriving. However MGA portfolios, especially in wheels, contracting, property and primary casualty are significantly under-priced.
Data provision (or its availability) is often substandard/poor. This makes the whole analysis process overly labour intensive.
Often companies do not have systems offering the level of granularity to analysed DA's results as a fully costed P&L. Often the analysis is purely on technical results and do not factor enough the acquisition costs, internal or external.
The market is getting better at this. As the data presented to the 'centre' improves, so will the performance oversight for the business. From a governance and oversight perspective, the market has significantly improved over the past 18 months.

Has the recent strong growth in London market delegated authority market been justified by market conditions and results?



	Percent	Count
Absolutely justified	6.3%	16
Somewhat justified	38.8%	99
Difficult to justify	42.7%	109
Unjustifiable	12.2%	31
	Totals	255

Over half of respondents, 54.9 percent, thought that growth in London market delegated authority was ‘unjustifiable’ or ‘difficult to justify’ while 38.8 percent chose ‘somewhat justified’. Just 6.3 percent thought it was ‘absolutely justified’.

Some respondents believed that growth in this sector was driven by market consolidation and the subsequent job losses.

Others noted that the high costs involved in operating at Lloyd’s and restrictive company market settings have led to a growth in the delegated authority space.

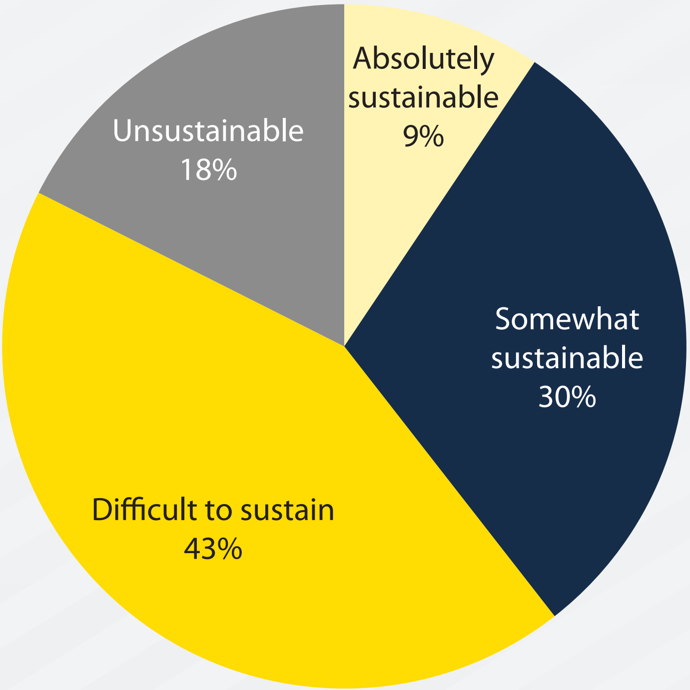
See respondents’ comments on the next page.

Has the recent strong growth in London market delegated authority market been justified by market conditions and results?

COMMENTS

Often too slow to react to wider market conditions. Time consuming to monitor and control. High commissions/acquisition costs.
Unjustifiable with regards to London carriers backing London based MGAs in lines they are already in. This compounds market conditions. It is completely justifiable where carriers are accessing geographic or product expertise they do not have in house.
Would suggest caution as market conditions deteriorate. Only strong known firms should be given such authority. One should not delegate to "a few people and a laptop". That is a poor recipe in a soft market. All believe they are better underwriters than others and get mid- to top-drawer business. They do not. Need to stick with the professional firms. The only time less than professional firms can work are when the market is excessively hard. Otherwise, it's a poor result that occurs.
As growth has been sought and capital has been in abundance, some syndicates have put together arrangements offering enhanced commission and brokerage to garner their growth. These are now being cancelled or tempered but are damaging some of the more established and profitable coverholders as senior management are applying a broad brush to this element of the syndicate's portfolio.
The growth in delegated authority is a reaction to high costs at Lloyd's, and the corporate straight-jacket and mindset in the company market. It's less tied to market conditions and rates.
Bearing in mind the additional acquisition cost that comes with delegated authorities it seems unjustifiable that the recent strong growth has come at a time when rates have been falling.
In general, market conditions and results don't justify the growth in DA business. That growth is driven by brokers and MGA growth objectives and supported by insurers.
Carriers flight to top-line growth over the past 10 years has crippled rates and allowed in too many amateurs to the delegated authority space. The growth was at precisely the wrong time in the cycle.
It's been fuelled in part by market consolidation and job losses.
Underwriters always give their pen away at the wrong time in the cycle. Maybe they just can't bring themselves to write accounts at the wrong price but still need the income....so they let others do it for them.
It seems to be driven by underwriters who have lost their jobs in the general market
Is it logical to reduce your own underwriting without the frictional costs of delegated authority but increase the delegation of authority to third parties?

Do you believe this growth is sustainable?



	Percent	Count
Absolutely sustainable	9.4%	24
Somewhat sustainable	30.1%	77
Difficult to sustain	43.0%	110
Unsustainable	17.6%	45
	Totals	256

Over 60 percent of respondents think that the current growth in the delegated authority market is 'difficult to sustain' or 'unsustainable'.

Some 39.5 percent however did feel that the growth is 'somewhat sustainable' or 'absolutely sustainable'.

Some respondents thought that there are too many niche delegated authorities operating in the market. Some went on to say that the way to achieve sustainable growth is for delegated authorities to diversify in their offerings.

Meanwhile others believe that a period of consolidation in the delegated authority space is about to come.

See respondents' comments on the next page.

Do you believe this growth is sustainable?

COMMENTS

With the continued data and regulatory requirements being placed on carriers, which are then passed to the delegated authority world makes it harder for smaller firms to keep relevance.
Dependent on the speed and quality of post-Brexit transition and changes in operating procedures of EU MGAs and their carriers.
Difficult with current business models where there is so much duplication and a carrier cannot be lean enough given the regulatory burden regarding oversight of and input into underwriting, compliance and claims that is still required to reap the benefits of outsourcing to an MGA.
Right now, delegated authorities might be the best way to access growth in policies that might otherwise be too small to process through the bureau. At some point, there will be a better way to access and process such business.
Underwriting results need to improve otherwise capacity will shrink and delegated authority will be the first area capacity is restricted.
Growth is sustainable for brokers and MGAs that are disciplined enough to remember that sustainability is a result of capital providers making an acceptable return over time. Equally it will prove to be sustainable for MGAs that provide innovative solutions.
A move to tighter management of delegated authorities / MGAs, more collaborative financial modelling, and profit commission instead of standard commission, should see the cream rise to the top, and the poorly performing facilities fail to secure capacity
Better MGAs and brokers can and do deliver profitable income to the market. Some areas however will need to be cut back - especially those who produce poor results.
There are lots of new authorities that have emerged in the past several years. Many of these authorities are very small, or operate in a niche area. Without diversity of product, access to resources, and depth/ sustainability of broker relationships, many are unprofitable or barely breaking even. There will be consolidation in the space and several super-delegated authorities with a portfolio of products will emerge.
I think the delegated authority model needs some tweaking but overall I see growth, as it fills a need. Technology, capacity, and modelling are causing the most issues/opportunities for the future.
Lack of support and expertise from Lloyd's has made this very difficult to sustain. Brexit knowledge from Lloyd's has not been clear.
Lloyd's and the FCA struggle to understand delegated distribution models.
Too many MGAs have nothing unique to offer. These will eventually suffer.

What expected growth we are likely to see over the next five years and why?

Key points:

- Those that believed there would be growth in the delegated authority market believed that growth in terms of market share would range from 5 percent to 20 percent.
- Others believe that there could be a slowdown in growth as the current high competition in the delegated authority space will eventually lead to some consolidation in the market.
- Respondents also referred to the role technology would have. Some said the development of new technology could allow carriers to operate more efficiently and at a lower cost, reducing the need for delegated authorities.

See respondents' comments below.

Shrinking due to consolidation amongst wholesalers and MGAs, reduction in London market MGA supported by Lloyd's, however potential growth as other carriers try to get a London footprint.
As technology is put to wider use in particular internet and app sales, it is more likely than not that use of delegated authorities will continue to grow. I foresee in the region of 5-10 percent year on year
Less than 10 percent as electronic trading and reductions in acquisition costs become effective. This will reduce the need to servicing niche / specialist business only where the direct costs do not make sense for a carrier.
The next five years will see a substantial reduction in the number of delegated authority contracts and the volume of premium written through this mechanism. The reduction will be entirely driven by Lloyd's insatiable appetite for imposing new rules and regulations, which continue to suffocate the ability for this highly profitable means of distributing the markets capital.
No growth. I see a decreasing number of MGAs securing partners long term.
Costs in London are too expensive, so overseas delegated authorities provide the veneer of improved combined ratio.
Hope to see the London market get better at differentiating good and bad delegated businesses. In respect of the former we should see a shortening of the chain between delegated underwriter and capacity provider and this could be a source of growth if well executed. The latter I would hope would a source of contraction.
I think you will start to see a slow down as books develop and markets pull back. Broker consolidation will also play a role.

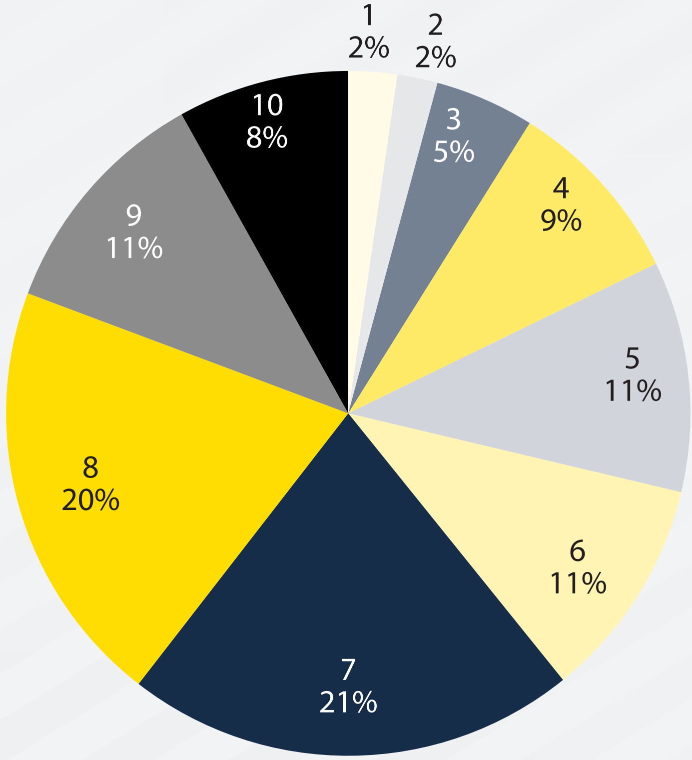
What expected growth we are likely to see over the next five years and why?

COMMENTS

Generational gap/talent shortage will drive capacity to more entrepreneurial MGAs delegated authority as it will be too expensive for traditional insurers to maintain critical underwriters/staff.
So many MGAs flourished over the last few years. We can reasonably expect this trend to decrease as competition is intense in this area.
I believe any growth that will be seen will be seen by larger, established MGAs and that the bar for new start up independent vehicles will be raised.
As market conditions change, the push for local delegated authorities increases at exactly the time they should be reined in. However, the market will likely succumb to this pressure and see delegated authorities expand quickly for 1-3 years and then flatten the growth curve.
A period of retrenchment is justified and overdue. Long terms growth will also come once some of the also-rans are no longer to enjoy the support of new naive entrants.
Expect growth from MGAs that provide a differentiated offering. "More of the same" is unlikely to be supported so growth should come from MGAs that successfully employ technology, develop new products (delivered quickly and efficiently), that genuinely represent a lower transactional cost environment and which find new / innovative ways to streamline the underwriting process.
Mixed picture but we will see some growth in the short-term (the next 18-24 months). Consolidation will make senior leaders in the industry decide to look for other opportunities such as creating a MGA type vehicle backed by capital.
Delegated facilities have been driven by underwriters' inability to handle volume business as expense ratios have climbed. A change in the way we work and the use of big data could drive premium growth as analytics take out the donkey work.
The total amount of premiums underwritten through delegated authorities will increase both in nominal and proportion to the overall market. At the same time, the number of authorities will shrink due to consolidation and competition between authorities. Delegated authorities are closer to policyholder and brokers than open brokerage underwriters, and will therefore continue to drive new product development. In turn, there will be continued growth. However, it will not be linear. Not all new products will be winners, and many smaller delegated authorities simply won't be able to compete profitably. Consolidation is also natural and inevitable.
The success of PPL will drive more and more SME/niche-type business into the delegated authority model. Currently 40 percent of Lloyd's business is under some level of delegated authority and in 5 years' time that might be 50 percent.
Depends - the market is at a fork – a return to specialist underwriting should see the expansion of delegated authority. However, as artificial intelligence powers on in the volume arena, much of this business is the target of DA facilities - and so the challenge is person over machine, in the immediate term.
Growth in niche classes and specialisms will be significant if MGA's can control acquisition costs. InsurTech MGA's should contribute to this with low cost distribution models.

On average what added value are delegated authorities bringing to London market distribution?

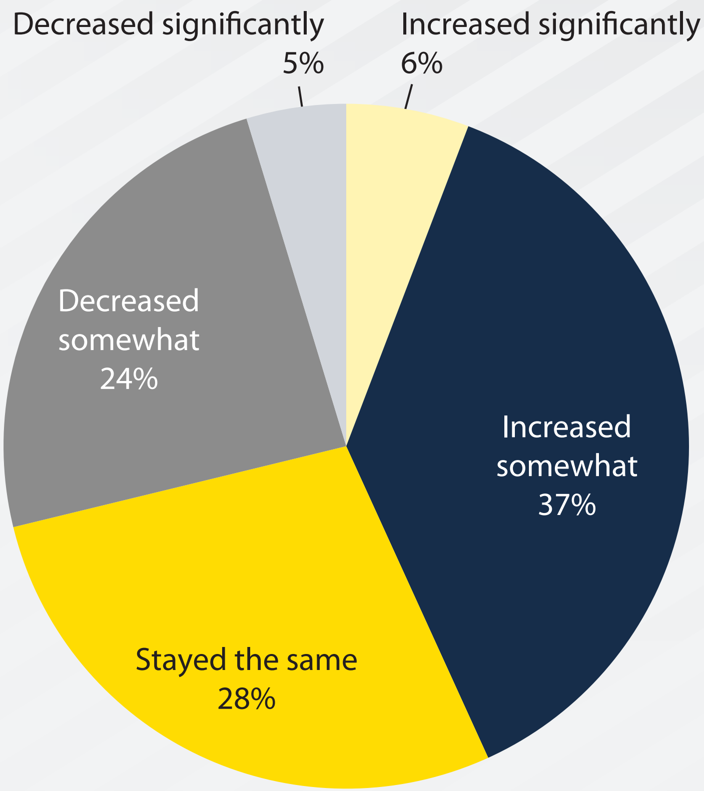
1 = LITTLE ADDED VALUE. 10 = EXTREMELY HIGH ADDED VALUE



	Percent	Count
1	2.3%	6
2	1.9%	5
3	4.7%	12
4	8.9%	23
5	10.9%	28
6	10.5%	27
7	21.3%	55
8	20.2%	52
9	11.2%	29
10	8.1%	21
	Totals	258

Respondents were generally positive here, with 71.3 percent choosing a positive value (6 and above). Only 2 percent of respondents thought delegated authorities generate 'little add value' to London market distribution while 8 percent believed they produce 'extremely high added value'.

On average has the value added by delegated authority arrangements increased or decreased over the last three years?



	Percent	Count
Increased significantly	5.8%	15
Increased somewhat	37.4%	96
Stayed the same	28.0%	72
Decreased somewhat	24.1%	62
Decreased significantly	4.7%	12
	Totals	257

The majority of respondents, 37.4 percent, believed the value added by delegated authority arrangements have 'increased somewhat' over the last three years. Around a quarter thought that it had 'decreased somewhat' and just 4.7 percent believed it had 'decreased significantly'.

Some thought that the value added by delegated authorities had decreased because of the increase in the number of MGAs being allowed into the market during a soft market.

Others noted that some MGAs have better access to distribution and invest more in technology allowing them to bring more information to the market that syndicates don't have.

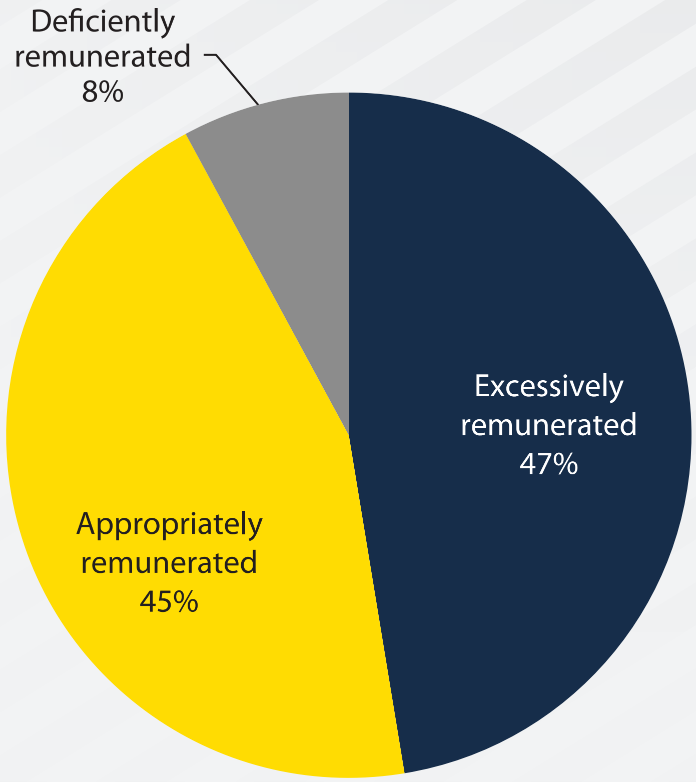
See respondents' comments on the next page.

On average has the value added by delegated authority arrangements increased or decreased over the last three years?

COMMENTS

With tighter regulation and oversight together with better data and reporting it is far easier to identify good business partners.
They have added premium value, but that cannot be considered in isolation - the cost of regulatory oversight has also increased which acts as a drag.
Those who have played by the rules have been hurt by those who have abused their contracts by driving down rates.
MGAs have the best access to distribution and continue to develop and control this aspect. MGAs also continue to improve in terms of professional standards with many exceeding the underwriting control standards that are prevalent in standard open market Lloyd's syndicates.
On average it has decreased because delegated authority has been granted too easily by too many insurers who are keen to grow. MGAs need to be more disciplined and so do insurers.
The model is a good distribution play for business that would be uneconomical to write in any other form however this has been stretched over the past few years of softening market to creep into areas that are beyond their specialist knowledge.
As some MGAs invest more in technology they can bring information to the market that most syndicates simply don't have. So, on top of distribution to smaller wholesalers and retail agents - they have expertise and most importantly data to back up their underwriting.
There are many more arrangements, but the value has only improved slightly – delegated underwriting growth is now marginal in terms of value.
Increased where the focus is on profitability and niche expertise. If the delegated authority structure is set up correctly there should not only be greater alignment of remuneration with performance but also significant cost savings to the legacy Lloyd's syndicate or insurance company structures.
The value of MGA business in London has been decreased by dint of too many new MGAs being allowed into the market at a time when portfolio management should have been focused on profit and not growth. Exposure growth in a soft market cycle where rate adequacy has fallen away is obviously a recipe for disaster. It should not be a surprise to anyone.
Acquisition costs are too high.
Should be increasing given technology improvements in society, but this has been happening far too slowly.

To what extent are delegated authorities remunerated appropriately?



	Percent	Count
Excessively remunerated	47.4%	120
Appropriately remunerated	44.7%	113
Deficiently remunerated	7.9%	20
	Totals	253

Respondents were split almost evenly between 'excessively remunerated' and 'appropriately remunerated'.

Just 7.9 percent thought they were deficiently remunerated.

Some respondents noted that remuneration varied across different sections of the delegated authority market. However, looking at comments left for this question, the majority believed that remuneration should to be tied to performance rather than premium income, which would lead to better quality underwriting.

See respondents' comments on the next page.

To what extent are delegated authorities remunerated appropriately?

COMMENTS

Depends on the niche but generally too much when combined with costs to monitor, broker commissions and reduced premium levels.
This is a general statement - acquisition costs have risen in recent years - there is some room for Lloyd's underwriters to push back to a more reasonable level - however MGAs will argue that they do a lot on behalf of capacity providers and any pressure on their commissions will come at a cost of the work that they are able to do. This is not to say that the underwriting quality will necessarily suffer, but capacity providers may find that it becomes harder to track the day to day performance if MGAs are forced to reduce their internal admin outgoings.
This is an issue... • with profit commissions representing such a small part of overall remuneration there is not good alignment of underwriting interests • the large component of fixed commission leaves limited 'scale benefits' on offer to carriers; and • the one year remuneration structure does not incentivise long term investment in necessary (e.g. digital) transformation
There are different set ups to remunerate them - some are based on premium income (which can be problematic), and others are based on results with reward pay-outs staggered over 3 years. The latter drives more appropriate underwriting behaviour.
The mode needs to move towards more profit-based over income remuneration.
There are obviously some exceptions but in the main MGAs are appropriately remunerated BUT remuneration should be more heavily weighted towards profit shares to ensure that both parties benefit.
Should be profit related.
London market underwriting expenses in general are extraordinary. Acquisition costs and underwriting expense is often on a "net premium" that already had a large amount of retail expenses deducted.
Coverholders and MGA's are properly remunerated in some circumstances but there are instances where commissions are simply too high and should be reduced. Again, trailing soft market conditions and carrier flight to top-line growth have allowed commissions to creep too high in some areas.
I have answered this question with "Appropriate" but the question is much more nuanced than that. Some products lines are definitely remunerated excessively - for example liability DUAs seem to be around 5 percent higher than property DUAs for no real good reason. I don't believe anyone does a good enough job of asking coverholders to demonstrate their value and justifying their margin. But that is because they haven't need to for a long time - that might be changing.

How would you change, if at all, the way delegated authorities are remunerated and incentivised?

Following on from comments in the previous question, respondents noted that:

- Remuneration should focus more on performance-related fees (profit commission) which would in theory lead to better underwriting
- There should be a move away from high fixed fees
- Commissions should be capped
- Fixed fees should only be enough to cover delegated authorities' operating costs
- Delegated authorities need to invest more in technology to push their expenses down

See respondents' comments below.

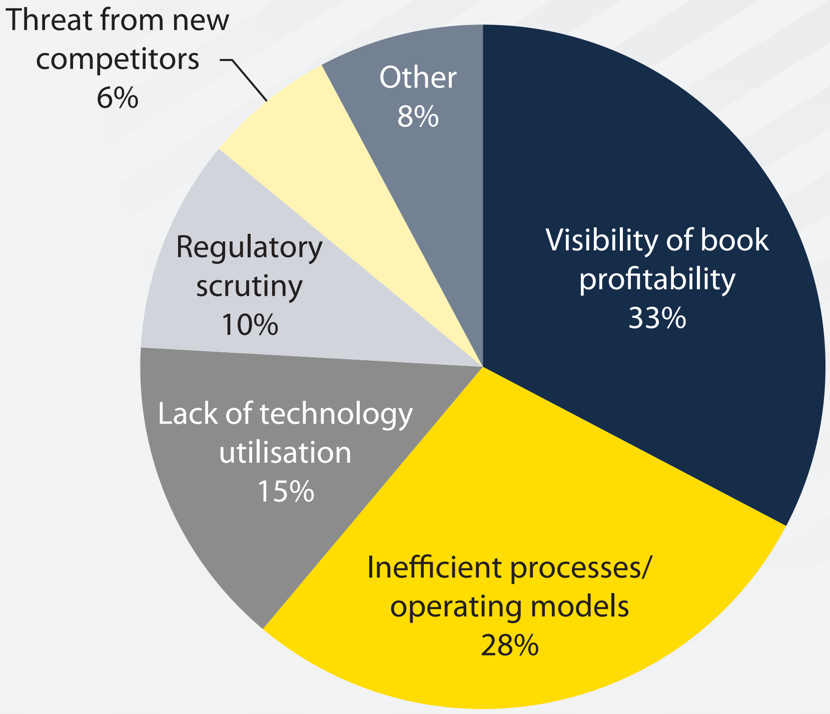
Greater scrutiny on partnership costs and benefits such as profit commissions (which can be insured) vs brokerage/commissions and reduced administration costs through smart systems.
Increased use of profit commissions as the prime source of reward.
The level of compensation should be enough to ensure adequate resource in writing the business with a small profit.
I believe the current system is quite effective, as always, it is an issue of agreement with London carrier - I think 2 things should be remunerated strongly - existing portfolio quality and quality of new business: profit commission and quality growth commission?
I don't think that just increasing the profit commission is necessarily the answer. Although a profit commission does provide some sort of incentive I believe delegated authorities measure success more on book size rather than a financial profit therefore this is a 'bonus' to the delegated authority rather than a target for the business to perform to. DAs need to incorporate technology and push their expenses down.
Ensure that volume and scale eventually leads to a reduced commission level overall owing to efficiencies and technology rather than an linear increased cost to carriers, increased leverage for MGAs and potentially less value to the customer.
A more rigorous and transparent test of brokers profitability model so that there is a proper payback when insufficient or late data / premium payment / poor results (attritional) are experienced and linked to a longer term partnership agreement.

How would you change, if at all, the way delegated authorities are remunerated and incentivised?

A lower commission, to cover costs and expenses, and remuneration of executives by bonuses linked to profit commission, and perhaps quota share reinsurances becoming more commonplace so MGAs start sharing in risk
Coverholder commissions should cover the costs of running the business - this should include a premium for accessing distribution that the capacity provider cannot access themselves - but no more. Underwriting profitability should only be "shared" by means of sensible profit/contingent commission arrangements. That way the MGA is in the same place as the capacity provider in terms of reaping the reward for underwriting performance - or in the event of under-performance - only able to cover their cost of doing business and not making excessive profits when capacity providers are the ones who suffer the underwriting loss.
Profit commissions need to be two way. Medium term deterioration should allow claw back.
Only allow so many per syndicate. Cap commissions and profit commissions. Only allow in niche areas not general business.
More profit sharing oriented. Their fees would be enough to "keep the lights on", but more profit sharing will help them stay focused.
Reduce base commission, tying to services performed with a profit component (or clawback). Commission should be called for both the delegate and overall, to help bring down overall cost and maximise customer value.
Commission levels should be sufficient to cover delegated authorities operating costs only, with any profit being derived from profit commission
Because London is inherently more "difficult" to deal with, both in terms of process and procedure, US based MGA's favour any domestic market capacity. So there is a built-in adverse selection going to London, as it would only be risks that the US capacity rejects. If London wants a fair opportunity on all risks, it needs to remunerate the MGA to make it worth their while to deal with the London process in exchange for the additional compensation. In other words, you can't expect to succeed by paying 'market-competitive' commissions if you are not equally market-competitive in terms of ease of doing business.
In terms of commission, delegated authorities need to show that they are embracing technology and doing all they can to become more efficient which should lower their fixed costs and hence commissions. Profit commission should stay a key feature to align interests, however they do not appear to be driving the right behaviours at present where there has been over capacity in the market chasing premium and willing to write delegated underwriting at around or over 100 percent combined ratio.

What is the most pressing challenge in the delegated authority space that carriers need to address?

1 = EXTREMELY LOW INFLUENCE, 5 = EXTREMELY HIGH INFLUENCE



	Percent	Count
Visibility of book profitability	32.7%	84
Inefficient processes/operating models	28.4%	73
Lack of technology utilisation	14.8%	38
Regulatory scrutiny	10.1%	26
Threat from new competitors	6.2%	16
Other	7.8%	20
	Totals	257

How would you change the way in which the performance of delegated authorities is more effectively managed and reported on?

Key points from respondents' comments:

- Investment needs to go into systems and technology to allow for quicker or real-time reporting of KPIs
- Carriers need more granular data on delegated authorities
- Unprofitable and inefficient delegated authorities should not be operating
- Risks carriers should be more involved in monitoring delegated authorities' adherence to underwriting guidelines
- Performance reporting needs to be standardised
- In some cases delegated authorities have better technology than carriers do which causes issues when transferring information across
- Improvements in regulation and audits need to be made

See respondents' comments below.

Honestly speaking, reduce the number of delegated authorities as much as possible and just focus on the few ones which actually create value.
More regular MI reporting, more transparency on MGA figures to include all costs (claims / TPA), fees, commissions, brokerage associated with the MGA.
Make the Lloyd's broker far more responsible for the on-boarding process to reduce carrier costs and time. All binders should be via PPL. Remove the requirement to audit Lloyd's brokers where they act as coverholders and require them to provide an attestation as to their suitability and compliance with regulatory needs. Make them subject to an annual review conducted by Lloyd's at the cost of the Corporation and not of syndicates.
Carriers need more granular data on delegated authorities, not enough to just see performance. I don't believe underwriters currently understand how to interpret the performance figures produced into a coherent result (taking into account volatility of business written).
Better systems to conduct real time performance analysis.
Working audits are best, or monthly reporting as a minimum with certain KPI's required. It also needs to be run by a strong underwriter on both sides. It's a business relationship, not mates.
Efforts are already underway - risk based approach to compliance, fewer barriers to entry - individual managing agents need to accept that there is no value in duplicating the work that has been done by Lloyd's or by a lead managing agent. Issuing a 54 page due diligence questionnaire to a potential new coverholder who already has a Lloyd's approval and a full online record as well as a track record of performance is not conducive to the development of new business opportunities.

How would you change the way in which the performance of delegated authorities is more effectively managed and reported on?

COMMENTS

Force Lloyd's/Xchanging to provide a message in which premium payments can be tracked and easily identified to the appropriate month. Considering the amount of money Lloyd's has spent on electronic placement, the fact premium payments cannot be easily identified is beyond understanding. After all, if we don't receive premium we are giving free insurance.
In many cases, capacity providers do not understand what the MGA does and will duplicate effort. Many issues stem from having MGAs of lower calibre, ineffective or inefficient systems and poorly managed. Carriers - when they get closer to the MGAs (ownership or tie ups) will have better outcomes.
In many cases there is too much reliance on the broker. Lead underwriters need to be more involved in providing feedback, rather than simply relying on the broker to track results, often with less sophisticated systems.
The risk carrier must be constantly monitoring adherence to underwriting guidelines, including both pricing and terms.
From our standpoint - we have more information on our book performance than any insurer we work with. We also have a full time data analytics person. But, the reality is that most carriers simply can't keep up with where we are. So, we are explaining the nuances that our books present. We are the ones that are raising rates where needed and pulling out of classes when we see increased frequency or average spend per claim. This is long before the insurers recognise issues.
Streamline the reporting. Make the registration and oversight more efficient from the unduly cumbersome current lengthy processes. Make Audits appropriate as opposed to a check box one size fits all.
As a regulator, Lloyd's should subject carriers to far greater scrutiny on DA's, as far too many move from carrier to carrier when the losses start rolling in. For the past 5 - 8 years Lloyd's have turned a blind eye to this, especially for new syndicates, as it has allowed them to grow income significantly in the short term. UK and ROI casualty is a classic example of this, and the oversight failure on the part of both carriers and Lloyd's begs belief.
Better systems to report better data.
As a risk carrier, a key challenge is to be able to look at the all in cost of management delegated underwriting arrangements; not just the direct commissions but also the fair allocation of internal costs.
All syndicates should report on their performance split between delegated authorities and "other" business - whether open-market or line-slips. There should also be greater scrutiny regarding provision of rate movement data that is provided by the market.
Need to be managed in more of a real time environment, with trends being identified more quickly.
One system which all entities are engaged with - brokers, MGAs and carriers therefore making data access easier and more cost efficient

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