Tech Power: How MGAs are Shaping the Future of Insurance

Excerpt from the November 2024 Conning Commentary

Technology is not just disrupting the insurance industry—it's rewriting the rules and creating high stakes for MGAs to manage as they navigate an increasingly competitive environment. Technology is critical to the success of MGAs, serving as one of the most controllable and impactful differentiators in their business model. While key success factors such as talent, capacity, and market conditions all play significant roles, technology stands out as the most manageable. It enables MGAs to streamline operations, enhance underwriting precision, and deliver better service. In building a sustainable MGA, technology becomes a powerful tool for gaining a competitive edge, driving efficiency, and navigating the ever-changing market environment. Simply put, a strong tech foundation is the difference between keeping up and leading in the MGA space.

Conning and Vertafore have joined forces to produce this article, driven by a shared ambition to explore the evolving role of technology within the MGA sector. By combining Conning's extensive research and deep understanding of the MGA market with Vertafore's expertise in cutting-edge insurance technology, we aimed to provide a more comprehensive analysis of how MGAs are leveraging tech to enhance operations, drive innovation, and meet evolving industry demands.

In 2023, the MGA market experienced strong premium growth, outpacing overall property-casualty market growth for the third consecutive year. MGA premium written by U.S. insurance companies increased by 13%[1], compared to a 10% rise in total property-casualty premium[2]. The MGA market was sized at $102 billion in 2023 and is showing no signs of slowing down[3]. Clearly, MGAs appeal to insurers, but this appeal could fade at any time if MGAs neglect one of the key lubricants that provides the impetus for their appeal: technology.

Indeed, the MGAs who harness technology effectively are poised to lead, while those who lag behind may struggle to stay afloat. Technology empowers MGAs to compete effectively with large insurers and significantly enhance their underwriting capabilities. In fact, a primary appeal of MGAs to insurers is that they are responsible for ensuring that the business they underwrite meets insurers' specific criteria and fits within their risk appetite. Further, the ability to monitor results in real time gives both MGAs and capacity providers the confidence that the business they are underwriting is sound and, above all other considerations, profitable.

Technology impacts MGAs across multiple functions as it accelerates speed to market, optimizes IT costs, enhances operational efficiency for profitability, and enables seamless integration with third-party applications and new technologies. Perhaps more importantly, embracing technology allows MGAs to offer more tailored solutions and specialized programs, which creates a competitive advantage for MGAs in a market that is becoming increasingly driven by data and digital tools.

Investing in Technology

By leveraging technology, MGAs have opened up new opportunities to improve operations, increase efficiency, and deliver greater value to their stakeholders. Unlike traditional insurers, MGAs view

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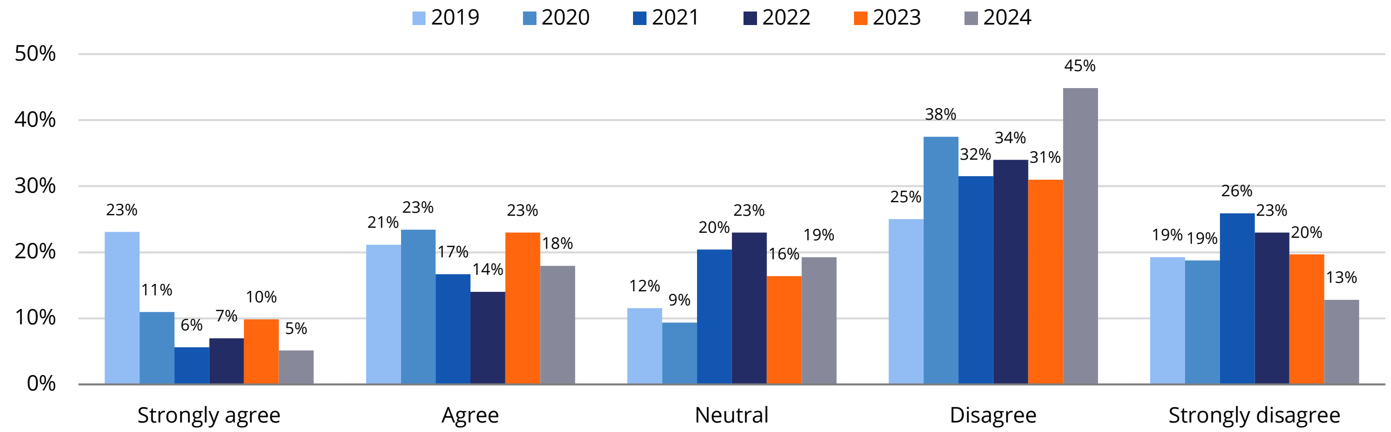
MGA Executive Agreement with "I'm worried our firm is not investing enough in technology."



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technology as a key differentiator, allowing them to bring products to market more quickly by relying on a more flexible tech stack.

In the spring of 2024, Conning conducted a survey among MGA executives and insurers. When asked whether their technology expectations of MGAs were evolving, 64% of insurers confirmed that their expectations were indeed changing[4]. These evolving expectations include demands for greater data connectivity, ongoing technological enhancements, real-time analytics, more advanced tools for catastrophe modeling, underwriting, and claims handling, as well as the expectation that MGAs will leverage data analytics to make faster decisions than the insurer, primarily because insurers know, for the most part, that the risks MGAs present to them to underwrite will be well within their appetite and likely will not require further underwriter scrutiny.

Technology represents both a challenge and a significant asset for MGAs, giving them the confidence that their investments will lead to profitable underwriting. Traditional insurers often struggle with outdated legacy systems, but most MGAs have the advantage of leveraging modern, cloud-based technology services to enhance their business operations.

Interestingly, the survey also revealed a shift in how MGAs perceive their investment in technology. The percentage of respondents who "strongly agreed" with the statement that they are worried about underinvesting in technology has dropped significantly over the past five years—from 23% in 2019 to just 5% in the 2024 Conning survey. Conversely, the percentage of respondents who disagreed with this statement has increased from 44% in 2019 to 58% in 2024. This shift suggests a growing confidence among MGAs that they are investing adequately in technology to support their operations and stay competitive in the market.

Overall, while keeping up with technology remains a key concern, MGAs are increasingly viewing technology as a powerful tool that sets them apart from traditional insurers. Reduced concern about underinvestment indicates that many MGAs are becoming more proactive and confident in their technology strategies, recognizing the critical role that these investments play in their long-term success.

Tech-Driven Evolution

The survey aimed to understand how MGA executives view the evolving role of data analytics within their organizations. Nearly three-quarters (74%) agreed they are utilizing data analytics in ways that were not possible four or five years ago, underscoring a significant shift in how MGAs leverage data.

This question targeted MGAs with four or more years of experience, ensuring responses reflected long-term industry insights. The results highlight how established MGAs increasingly recognize data analytics as a vital tool in today's complex insurance landscape.

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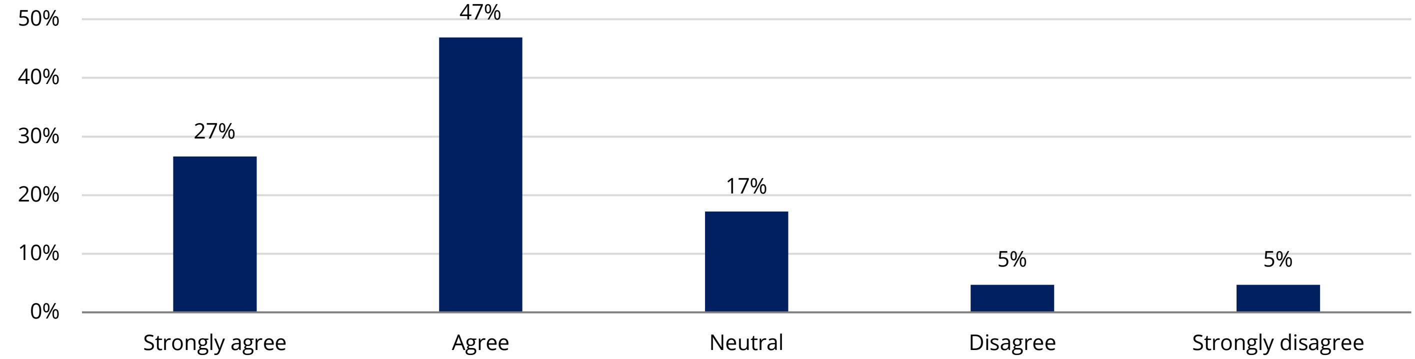
MGA Executive Agreement with "We use data analytics at my firm today in a way that would not have been possible four or five years ago."



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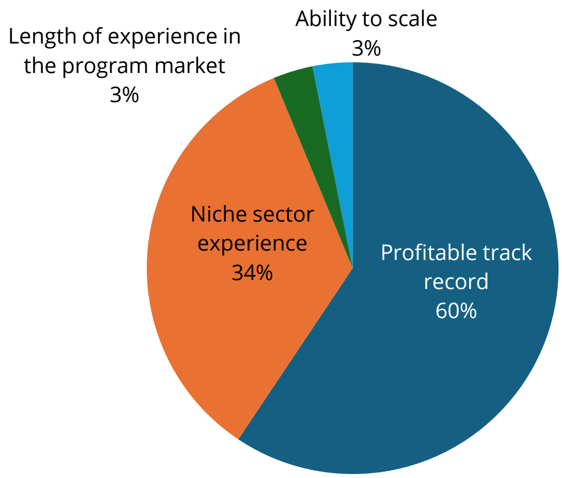
However, 17% of respondents remained neutral, indicating that some MGAs may still be navigating challenges such as resource constraints or the complexity of integrating advanced analytics into their operations.

In many ways, technology is redefining the competitive dynamics of the market, influencing everything from operational efficiency to speed to market.

Insurer Perceptions on Statement: "What is the most important factor when choosing an MGA partner to start a new program?"



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Sixty percent of respondents identified a profitable track record as the most important factor when choosing an MGA partner to launch a new program. Other key factors include alignment of interests, data and technology, management team experience, and underwriting capabilities. Technology plays a crucial role in all of these aspects. One could argue that technology is a vital component of an MGA's ability to maintain a profitable track record, as it enables better risk assessment through improved data, real-time monitoring of loss data, and more effective management of their book of business.

Behind the Scenes: How Technology is Transforming MGA Operations

Advanced policy administration systems and user-friendly portals can provide a competitive edge, particularly in enhancing efficiency and customer service. Often, this technology operates behind the scenes, streamlining operations without being a direct focal point for the customer. MGAs are increasingly leveraging sophisticated tools such as data analytics platforms, automated underwriting engines, comprehensive policy administration systems, and integration hubs to bolster their back-end operations. Data analytics platforms enable MGAs to process and analyze vast amounts of data, refining risk models and improving underwriting accuracy. Automated underwriting engines further streamline decision-making by using algorithms and machine learning to assess risks and determine coverage levels without manual intervention. Meanwhile, policy administration systems manage the entire lifecycle of insurance policies, and integration hubs ensure seamless data exchange between systems and partners, facilitating smooth operations. Although these technological advancements might not be visible to the customer, they significantly enhance the customer experience by ensuring efficient and effective service delivery.

Technology plays a pivotal role in enabling faster and more accurate bindable quotes, ensuring that insurers receive high-quality business through the integration of advanced underwriting processes and expert analysis. For agents, technology significantly enhances ease of doing business, particularly through the use of technology portals that streamline communication with insureds and efficiently provide bindable quotes. These portals leverage data prefill capabilities, allowing agents to quickly gather and input the necessary information, reducing manual errors and speeding up the quoting process. As a result, insurers benefit from well-assessed risks, while agents and insureds experience a smoother, more efficient transaction process. This technological synergy not only enhances operational efficiency but also fosters greater trust and satisfaction among all parties involved.

Challenges in Technology Adoption

Yet, the path to technological integration is not without its hurdles. Many MGAs—and even larger insurers—struggle with the complexities and costs associated with adopting new technologies. Smaller MGAs, in particular, face significant obstacles in maintaining state-of-the-art systems, which can lead to acquisitions by larger firms with deeper pockets and more resources.

Impact on Underwriting and Operations

In underwriting, technology has transformed processes, with web-based tools and electronic platforms significantly enhancing operational efficiency and enabling MGAs to interact more effectively with brokers and customers. However, these advancements come at a cost. The rising expenses associated with these tools and third-party services are putting pressure on MGAs' profit margins, necessitating a careful balance between innovation and financial sustainability. This raises critical questions: Is the investment in technology truly worthwhile? Will it drive more business and increase profitability, or could the same results be achieved without the high costs associated with the use of technology? These are essential considerations when determining the best approach to adopting new technological solutions.

While the integration of technology offers MGAs numerous opportunities—from differentiating themselves in the market to attracting top-tier talent and improving operational efficiency—it also presents significant challenges. The complexities and costs of adoption and integration can be particularly burdensome for smaller organizations, threatening their independence and viability.

Understanding these dynamics is crucial as we explore the most common technology models employed by MGAs by examining how these approaches shape their operations and competitive positioning, we can gain deeper insights into the future of the MGA landscape and the role that technology will continue to play in defining it.

As the insurance landscape evolves, the strategic use of technology by MGAs has emerged as a critical factor in their success. To fully understand this shift, it's essential to examine the various technology models that MGAs are adopting, how these models are reshaping the market, and what factors must be considered when selecting the right technology vendor.

MGA technology models

While MGAs as a group have a reputation as the industry's technology and innovation champions, approaches to and experiences with technology within the MGA community vary widely. In our work with a wide swath of MGAs across the country, we've noted that most MGAs leverage technology to facilitate a common set of functions—such as policy administration, accounting, claims, customer management, rating and quoting, and data analysis—but they assemble their portfolio of solutions in different ways. The majority of MGAs fall into three primary models in how they build the foundation of their technology infrastructure:

- **Leveraging a carrier system.** This model is most common among affiliated MGAs (owned by or associated closely with an insurance carrier), who may have business processes that are tightly intertwined with those of their affiliated insurers and who may rely on their affiliated insurer(s) to perform core functions, such as billing. However, these systems tend to be more fixed in their functionality and built for a more expansive range of business processes than most MGAs require. The combination of less flexibility and higher complexity can create challenges for MGAs, who need the ability to quickly pivot and adapt to market conditions.
- **Leveraging an agency management system.** This model is most common among MGAs who function as a subsidiary or as an off-shoot of a broader more diversified agency. This model may make sense for MGAs with limited growth plans and those that intend to focus on one or two lines of business as there are initial cost-savings from repurposing an existing system. However, systems built for agencies can pose challenges for MGAs downstream as they attempt to launch additional programs. Most agency systems lack the ability to handle the unique rating needs to issue policies, and to produce the level of reporting required for insurers and regulators. MGAs with long-term growth goals are likely to find that any initial cost-savings from using an AMS is overcome with additional headcount and outsourcing expenses related to workarounds.
- **Configurable, MGA-focused core system and tech stack.** Increasingly, MGAs are selecting systems built specifically for their segment of the distribution channel. These MGAs anchor their tech stack on a highly configurable policy administration system that they can adapt to support their unique underwriting needs, niche products, and specific distribution models. With their policy administration system in place, these MGAs are leveraging APIs and integrations to add solutions for rating, third-party data, regulatory compliance, and retail agency connections.

Vertafore estimates that 30% to 40% of MGAs have opted into this latter model, and emerging MGAs are increasingly following suit to right-size their IT costs, access new data sources and technology advances, create a digital experience for their customers, and—perhaps most importantly—to win in the race to market.

In a competitive space, technology has become a key differentiator

With MGA growth outpacing the overall industry, the space continues to attract attention from insurers, retail agencies, investors, and entrepreneurs. And technology has increasingly become a way for MGAs to stand out as more entities enter the distribution channel or look to expand their footprint. According to the Conning MGA survey, 89% of insurers are expanding their use of MGAs[5]. When choosing an MGA partner to start a new program, several factors are critical, with technology playing a pivotal role. Respondents highlighted the importance of advanced technology and data analytics as key differentiators, enabling ease of doing business and supporting strategic alignment. But not all technological advantages are created equal. MGAs are experiencing the greatest benefits from focusing on the following four areas.

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Speed to market

One of the greatest assets an MGA has is its ability to quickly stand-up new programs and get products out to market more rapidly than traditional insurers. Carriers are looking for MGA partners who can corner new markets, and that dominance is often tied to the shortest span between the granting of capacity to the first instance of rating and quoting business. MGAs may take as little as 45 days to stand-up a new program, and many MGAs aim to go to market in under six months.

But with new programs, the path to market is seldom fixed. In addition, programs may require adjustment soon after launch or in response to shifting market conditions. That inherent fluidity, coupled with the accelerated timeframes under which MGAs work, requires technology that is quick to set up, but which can also accommodate rapid modifications.

Selecting technology to right-size costs

Because technology spend directly impacts the bottom line, MGAs need to walk the line between choosing systems that are robust enough to meet their needs without over-investing in solutions with superfluous functionality. It can be especially easy for start-up MGAs to try to plan for all future eventualities up-front. In the rapidly shifting world MGAs inhabit, they may build—and pay for—functionality they won't use until far into the future, or perhaps never use as market conditions and business needs move in another direction.

One way to manage this balance is with a system that allows for rapid, highly individualized configuration. Configurable systems enable MGAs to build the system that they need today, while allowing for the potential to add functionality down the road.

However, highly configurable systems can generate their own costs if organizations must fully manage systems and changes in-house with technology personnel. This is an area where vendors often differentiate themselves. As MGAs evaluate technology solutions and partners, they should consider the level of support they'll receive to implement changes—as well as the speed their vendor can execute those changes.

Integration with third-party applications and data sources

Holistically the insurance industry is moving away from the concept that a single entity can or should provide a system that meets an organization's entire needs. As the business models of carriers, agencies, and MGAs become more complex and nuanced, all-in-one systems can present disadvantages. Complex, heavy architecture makes it challenging to quickly implement new features in response to changing business requirements. Moreover, these systems are more likely to work on a closed model that creates barriers to integrating with other solutions and data sources.

These challenges can be especially detrimental to MGAs with their highly customized business models and where speed and flexibility are essential for a competitive edge. As the entrepreneurial sector of the insurance space, MGAs need a core policy administration system that helps them run their business, but they also need additional solutions to help them grow faster—like tools to gather and distribute third party knowledge as well as solutions to aid connectivity with their retail agencies and connectivity as carriers. A flexible technology stack enables MGAs to choose the right solutions for their unique business needs, while tapping into the efficiencies and growth potential that those tools can create.

One of the most significant trends in the space: MGAs are increasingly looking for a consolidated underwriting workstation that allows their underwriters to leverage relevant third-party data. Underwriters use these data sources—such as Google Maps, customer review platforms, and independent asset valuation—to build the nuanced risk models that drive their business. But by aggregating that information into their technology platforms, along with exposure information and other application data, MGAs can accelerate that process. These integrations allow for greater automation in identifying valid risks and producing quotes. Perhaps more significantly, these integrations enable MGAs to more quickly issue declines with less human interaction—providing faster answers for their retail agent partners and allowing their underwriters to focus their time and expertise on viable risks.

Technology to watch: the MGA-owned customer portal

"As MGAs evaluate where to focus their technology investment, they are most often focused on two questions: how can technology improve underwriting and how can technology deliver a better customer experience? These areas hold the greatest opportunities for MGAs to reduce their losses, keep their carriers, and support their relationships with retail brokers—ultimately, the areas that can deliver the biggest impact to their bottom line," notes Teresa Chia, board member at Kinsale Insurance and chief financial officer at Vertafore.

As MGAs look at technology to drive a better customer experience, customer portals are becoming more of a differentiator. Just like the clients they serve, retail agents are increasingly expecting a digital, real-time experience from their MGA partners. In response, MGAs are increasingly adding portals that allow direct customer interaction. These portals vary in their depth of functionality and sophistication, but at a minimum they should allow retail agents to submit applications and view statuses of their pending business, while directly integrating information into an MGA's policy administration system. These functions benefit both MGAs and retail brokers by facilitating real-time data exchanges and reducing manual and duplicate data entry. In addition, MGAs can benefit from white-labeled portals that allow them to add their own branding into the portal—driving visibility and brand affinity among the MGA's customers.

Selecting solutions and technology partners

Because every program is unique, MGAs with strategic growth plans need flexibility when evaluating a technology solution. A core MGA policy administration system and rating solutions must accommodate:

- Program variable data required to price risk, such as tailored underwriter guidelines, policy limits, federal and state DOI requirements, codes, and exclusions.
- Data to satisfy reporting needs and business requirements, such as licensing, credentialing, and tax information.
- Data integrations with third-party sources.
- Any line of business.
- Quick changes to variables when market factors inevitably shift over time.

Technology needs for rating systems may also differ based on whether an MGA is focused primarily on admitted or non-admitted markets. In either circumstance, the primary considerations are data integrity and receiving accurate rates for all points in the policy lifecycle. Beyond those considerations, MGAs should consider the level of flexibility they need to suit their market focus:

- For the more stringent requirements and regulations in the admitted market, MGAs may want to consider an enterprise system as they are less likely to need to accommodate quick market shifts.
- In contrast, MGAs working more heavily in non-admitted markets are more likely to experience more rapid rate fluctuations, necessitating a more flexible rating solution. For these entities, an Excel-based rater may make the most sense.

In either case, MGAs should look for rating solutions that support the full policy lifecycle and those that integrate with their policy system.

What to look for:

- Select solutions that can help manage the entire policy lifecycle, from quoting to workflows to policy issuance.
- Look for solutions built specifically for MGAs. When MGAs attempt to shoehorn their needs into solutions built for carriers or retail agencies, they spend more in the long run for functionality that doesn't serve their purpose.
- Account for implementation time. MGAs move faster than any segment of the insurance distribution channel and need a system implementation that works on a scale of weeks or a few months, compared to the quarters or even years that other distribution entities can devote.
- Prioritize systems that are flexible enough to meet today's needs while able to accommodate new features and lines of business in the future.

While different MGAs leverage varying approaches to building their technology infrastructure, the common goal remains the same: achieving operational efficiency, enhancing customer experiences, and delivering faster speed to market. Ultimately, choosing the right technology—and the right technology partner—is crucial for MGAs aiming to thrive in today's competitive landscape and as market conditions continue to fluctuate. Above all, MGAs need a partner committed to ongoing support, rapid response to change, and continuous innovation. By aligning with a technology provider that prioritizes these factors, MGAs can create a scalable, cost-effective infrastructure that drives long-term success.

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As North America's InsurTech leader for 55 years, Vertafore is modernizing and simplifying the insurance life cycle so that our customers can focus on what matters most. Vertafore's solutions provide end-to-end connectivity across the distribution channel, improve the client and agent experience, unlock the power of data, and streamline essential workflows to drive efficiency, productivity, and profitability for independent agencies, MGAs and carriers.

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