Transitioning Program Carriers

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Introduction

There is nothing that strikes more dread into a Program Administrator's (PA's) heart than moving a program from one carrier to another. For starters, your competition will gleefully alert your customers to real and perceived issues with the impending transition. The non-renewal notices for the current carrier, required by law, will alarm many of your insureds and cause them confusion and concern. The coverages, rates, deductibles, and underwriting guidelines of one carrier are rarely duplicated perfectly by another. Whether you have to re-program an in-house rating and issuance system or convert to a system provided by your new market, core data will often have to be re-entered resulting in significant processing delays and overtime for your staff. The new carrier may not have the same underwriting appetite, willingness to delegate authority, or Company Program Managers that trust your team.

The transition process is not a cake walk either for the Carrier. Data integrity, Regulatory compliance, expenses, setting up systems or feeds, and aligning partnership goals are all major issues from the carrier perspective. Thus, a carrier is rarely willing to take regulatory risks that could fall squarely on their shoulders and impact their business beyond any one program. Carriers are also reluctant to give too much authority, autonomy, or broadening of scope to a Program Administrator right off the bat. Authority, once provided, can be very hard to reign back in. In addition, experienced Program carriers have seen too many deals turn sour because of loose controls. And some newer Program carriers, given the Company culture, may be especially reluctant to share authority. Finally, the Company will not always appreciate the technology challenges on their end or yours. A carrier portfolio manager may not have worked directly in a system or they may not understand the detailed and highly complicated flow of data from one organization to another. Thus systems issues frequently turn out to be a nightmare for both the Carrier and the PA.

Surprises

And as if all those headaches are not enough, there are invariably a few nasty, unanticipated surprises. You discover a major issue with the new carrier contract but are under pressure to announce that you have a replacement market due to financial issues with your current Company. In mid-transition, the new carrier informs you that there are exposures on some of your key accounts that they will not write. There are delays or issues with state insurance department filings that throw a huge monkey wrench into your transition timing. The prior carrier, annoyed by losing the business, decides to become a competitor. Are we having fun yet?!

Surprises can often be avoided by clear and consistent communication between the parties. Thorough due diligence on both sides and a detailed letter of intent can save everyone a great deal of time and angst on the back end. Any due diligence that does not include an operational, financial, underwriting, actuarial, and claim review is likely to result in unanticipated issues down the road. While a high level overview of your business may provide an initial feeling of comfort to the Carrier, it may turn out to be an unsophisticated, and potentially misguided, understanding of your program operating model.

Therefore, when navigating the multiple challenges of a major carrier transition, don't look for "silver bullets" but rather think of it as addressing problems before they happen. It all starts by embracing Murphy's Law: "Whatever can go wrong, will go wrong". This is no time for optimism. As you work towards a transition plan, you will serve both yourself and your market well by becoming fanatically transparent and obsessively detail oriented. If your carrier understands every possible exposure, every possible coverage term and the account pricing that you will require, potential misunderstandings will be minimized.

Carrier exposure appetite

You should note that if the carrier is reluctant to write certain exposures, it is not always because they are being too conservative, although in some cases that may be true, as there are other factors that affect what they can offer. Treaty restrictions, capital constraints, legacy, and regulatory issues, or limited product availability due to their subscription to certain rating bureaus, will affect coverage availability. Some of these may be non-starters so question that early and understand what is a deal killer and what you can live with or can be worked out by compromise.

Contract terms

One common mistake regards the contract and the compensation terms with the Insurance Company. There may be reluctance on either or both sides to broach these often thorny issues, but waiting until the eleventh hour can be disastrous. Ask for a copy of the carrier's standard contract at the outset of negotiations and begin addressing your concerns sooner rather than later. Once negotiations appear to have momentum, discuss your compensation requirements in line with what you understand your responsibilities will be.

When discussing the compensation structure, it is important to appreciate the Carrier's desire to align their interests with yours. Given a partnership where you will be delegated significant authority to expose the Carrier's assets, most Companies will want your profit margin, to some degree, dependent on the underwriting results of the program. And delegating authority is often perceived as more risky by the equity markets, which may result in the carrier negotiating compensation terms with a higher than normal Return on Equity. There are many reasons why program relationships change on average in number of years and not number of decades, but misaligned compensation is one of them.

Admitted programs

Admitted programs can be particularly time consuming and tricky to move. Certain state insurance departments are not only slow to approve filings, they can also be very unpredictable. For states like Florida, New York, California, and a few others, it is wise to assume the worst (a lengthy delay) and allow a lot of time to get the filing approved and/or to have a contingency plan if it is delayed indefinitely.

Non-renewal or change of coverage notices

There are also ways to reduce the adverse impact of non-renewal notices. While the notice is usually limited by law to notifying the insured of the existing carrier withdrawing at expiration, you can include a note with the notice that you will be offering an alternative renewal quote through another carrier. Of course, you must advise, and obtain approval from, the expiring carrier as regards the note wording. If they refuse to allow it, you should, at the very least, send advance notice to your producers advising them of your intent to renew the account with another market. Effective communication will reduce renewal leakage and anxious calls from insureds and producers.

When renewing business with a new carrier, it is wise to point out to your producers and insureds any difference in coverage and terms, especially coverage reductions. This avoids exposing your Errors and Omissions coverage and creating potential client ill will. There are also regulatory issues when renewing accounts with coverage reductions without proper notice to the insured. Although not always the case, additional coverage wordings may involve elements requiring clarification(s) or true reductions. Good communication with your new carrier partner and your customers can help minimize the fallout from product changes.

Channel conflict

A potential transition issue is discovering that your new carrier not only writes the class of business, but will favor its own distribution network and refuses to accept BORs on existing accounts. This may sound obvious, but not every carrier is conscientious about identifying internal conflicts or their potential impact on your business. Nor may the program team within a carrier even know about conflict. Too often, the grapevine is how channel conflict gets discovered. Either another department finds out about a new program late in the on-boarding process or it is brought to the team's attention via an outside source. Obviously, this is not an ideal way to learn of a conflict, but is prone to occur with large and decentralized Carriers. So do your own research; it is easier to address conflicts up front, rather than trying to make the best of it once you have committed to a new partner.

Questions to ask

Varying degrees of sophistication will lead to varying degrees of detail when a carrier is looking at a new program. Do not assume you only have to answer their questions and not ask your own. And those questions should not always be the obvious ones. The questions you should ask and ask early are the ones where you may not like the answer, but it is better to know that answer and make a decision on it, as opposed to negotiating a solution later in the process.

There is so much that you will want to know about the carrier. The following are some of the questions you should be asking up front:

- How fast is your typical referral turnaround time? Will you commit to a standard or guideline?
- How much information will you require on referrals?
- Where appropriate, how much in-house Property and Umbrella Limit authority do you have? If you have exposures on the Gulf, how much wind authority? If your risks are in Quake or Flood zones, how much authority for those coverages?
- Who will be your Program Manager and will you get a chance to meet/know them in the due diligence process?
- How often will the Company audit you and what will they be focusing on? (Note: Sometimes a carrier that audits infrequently is more of an issue than one that audits frequently; audits can be an opportunity to correct misunderstandings or to help train the PA staff.)
- What percentage of your accounts would they like to have subject to referral?

Data and systems

One of the most common and impactful issues in a transition relates to data and systems. If you are switching to a new carrier policy and issuance system, it is important to do an extensive, hands-on testing of that system before committing. Due diligence with other customers using their system is also a must. A carrier system can significantly impact your cost of doing business as well as the speed of quote and policy delivery. Also, there is no such thing as too much staff training and preparation once you move forward with the carrier and their system. The first year is bound to require a lot of new data entry until you have the benefit of renewals to the system in year two. Therefore, a plan to have extra staff and/or staff prepared to work overtime is essential.

Using your own system has a separate set of challenges including data integrity risk, statistical reporting issues, regulatory compliance exposure, booking delays, and cyber risk among others. As you would want to inspect any carrier software, they will want to inspect your system if there is any processing and data collection that will be uploaded or forwarded to them. You will also want to involve their system team because the level of IT sophistication on the

Carrier business side varies greatly. Most Company business teams do not have the face time with the IT professionals that you might think.

If you are programing your own rating and issuance system for a new Carrier product, be careful to develop an accurate estimate of the cost and time to convert. You should also find out what the Carrier's data specifications are for uploading to their back end and for producing data reports they require. The required format and frequency of this data should at the very least be in writing or, ideally, in the contract itself. You should also be prepared for some of your system adjustments to result in errors and workarounds. The latter will need to be documented and communicated quickly and effectively. Thus, a plan to have additional IT and processing staff in place to adapt to these challenges is important.

Bordereaux, though still common, add carrier expense and create manual processing issues. A feed is a better long term alternative, but that adds upfront cost and complexity to the onboarding of a new program. Again, the point here is to get your IT professional(s) talking with their systems team.

Competition from prior Carrier

In the case of your original Carrier becoming a competitor, the typical contract wording that grants you ownership of your records and expirations can be used to minimize their ability to take your business. If they start quoting your renewals, you can use that language to go to court and get an injunction to stop them.

Conclusion

Finally, once the transition is in full swing, do not underestimate the importance of communication with staff, with producers, with insureds, and with both your existing and new Carriers. No matter how carefully you have planned the change of paper, problems are going to arise. Customers must know that you are addressing the issues as well as when they will improve and eventually be fixed. Above all, let them know how much you value their businesses and their patience. Staff must know you appreciate the adverse impact on them and that you support them. Various forms of recognition including bonus pay can make a difference. Staying on the best possible terms with the prior Carrier is huge as you will probably be asking them for a few favors. To the extent the new carrier can help, you must not be reluctant to request their assistance, be it in terms of resources or financial aid. Of course, this sword cuts both ways.

Last but not least, the choice of your new Company partner will have a huge impact on your organization's future. Not every carrier is prepared to be a long term partner or to commit the resources necessary to help you be successful. Get to know the team you will be working with to ensure you are comfortable with them and use your industry network to find out how they have treated other partners. Finally, work with a Company that truly embraces and understands the program model. The common thread in successful transitions is that they all involve great partnerships.