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# New MGAs must proceed with caution

Comprehensive due diligence at the early stage could help avoid serious problems later for MGA start-ups

Mark Birrell, Castel Underwriting 17:54, 13 February 2015

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The opportunities open today to entrepreneurial underwriters with niche books of business and a strong track record of profitability to create their own managing general agent (MGA) have never been greater.

The three most common models for MGAs are broker-owned, insurer-owned and wholly independent. Each has its own advantages and disadvantages but, regardless of the format selected, the challenges that will need to be faced while getting an MGA up and running are similar and must not be underestimated.

Even before a specific structure is selected, though, it is best to take a step back and ask some difficult questions. In particular, does the underwriter or underwriting team have a strong enough record of delivering successful underwriting results and is the proposed line of business suitable for an MGA?

There are also a number of other elements that must be present in a robust, realistic and executable three- to five-year business plan if it is to stand up to scrutiny. These range from high-level mission statements, strategic objectives and underwriting strategy to detail-driven sections that outline the financial model, premium income and profit-and-loss estimates.

Although time-consuming, comprehensive due diligence at this early stage could avoid backing undeliverable pipe dreams. Inevitably, not every entrepreneurial underwriting idea will succeed.

## Funding and capacity



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Once the business plan is given the green light there are three key components in launching an MGA. In common with the creation of any business in any market, it is vital to secure capital funding that will be both sufficiently adequate to launch the business and also to sustain cashflow during the first few years.

Alongside capital funding, capacity is the lifeblood of any MGA. Although in recent years capacity has been available, not all has been committed for the medium to long term. While attractive to underwriters keen to begin trading, basing a business on short-term capacity could see it facing considerable difficulties if this is withdrawn before momentum is achieved.

Although no easy task, there is no reason why committed capacity cannot be secured if all of the elements previously discussed are in place. Brokers also want to work with MGAs with access to stable capacity to ensure reliable market availability and consistency of cover for clients.

As with any underwriting business, the provision of capacity must be constantly analysed to ensure it is applied correctly to generate a return for shareholders and investors. This may lead to an overall reduction of capital dedicated to MGAs in a hard market, but those supported by the correct infrastructure will be in the best position to thrive throughout the cycle.

Regardless of the structure adopted, it will be essential to have access to proven and experienced management support, scalable IT systems, adequate office space, robust compliance processes, finance, credit control and HR. Properly defined processes, procedures and controls are certainly a pre-requisite to meet ever-increasing compliance demands.

Alongside these tangible resources, resolute entrepreneurial spirit will be required to drive the business forward, overcome issues and deal with the inevitable lows. In return, MGAs now, more than ever, offer a rewarding and achievable opportunity for insurance pioneers to benefit directly from their own efforts and endeavours. Choosing the right start-up platform does, however, remain key to helping secure committed capital, remaining compliant and building foundations robust enough to support future growth ambitions.

*Mark Birrell is chief executive of Castel Underwriting*

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