COVID -19 MGA Implications

Since the onset of the global pandemic, the BMS Program Specialty Practice Group has been gathering information to analyze the impact of the Coronavirus and its effects on various aspects of the Managing General Agents (MGA) space. Our discussions have provided insights on broad market updates regarding business continuity, changes in market appetite, governmental agencies expanding coverage, and future implications resulting from the coronavirus.

Business Continuity

In general, it appears most large and small MGAs, carriers, and reinsurers are up and running to a quasi-sense of normalcy. One of the major reasons for normalcy can be attributed to increased communication. All companies seem to be making sure they are over-communicating both internally and externally.

MGAs over the last few years have devoted a significant amount of time and resources to enhancing their technology platforms with the initial goals centering on customer service and data capture and ownership. This technology focus has enhanced MGAs' operational capabilities and enabled them to operate remotely with no loss of efficiency or effectiveness.

While MGAs are seemingly unimpaired by the transition to remote working, there has been a general lag of business activity due to the outbreak. The number of applications on a daily basis has dropped significantly since the virus took hold, but is expected to rebound once the workforce is normalized. Financially, all parties are feeling anxious about the pending legislative or regulatory attempts by several states to broaden in force Business Interruption coverage to include claims arising out of this pandemic. MGAs are also worried that if these claims are not covered by their carrier partners, it will become a customer service / reputational problem for them.

Market Appetite & Governmental Oversight

The program market is a diverse mix of industry sectors, lines of business, and geographies. As a result, changes in market appetite due to COVID-19 seem to vary by company. In general, both carriers and reinsurers appear to be more bearish and cognizant of onboarding any new programs, especially those with BI exposures. Others have expressed decreased appetite in Workers' Compensation, Hospitality, and Healthcare related business until the crisis passes.

Almost all MGAs surveyed have indicated payroll numbers will be going down throughout the duration of the pandemic. A wide range of business classes have been deemed 'non-essential', and businesses are continuing to adjust. This will have an impact on Casualty and Workers' Compensation exposure bases which ultimately determine top line premiums, which will cause carriers, reinsurers and MGAs alike to review their 2020 projections and budgets.

Multiple carriers in this space shared that they have received claims regarding COVID-19 and are seeking specific counsel. The biggest challenge that many MGAs and carriers are facing is how to manage their operations given potential reductions in and collection delays of premiums and responsively deal with the uncertainties impacting policy coverage.

Since the governors of New York, Texas, and California have mandated that non-payment of premium is not an acceptable basis for policy cancellation for the foreseeable future, many MGAs have already been impacted by this issue. While admitted carriers are generally more directly impacted by state regulations, E&S carriers also have to abide by specific premium payment state regulations.

Looking Ahead

In conclusion, it is too early to predict the future of the market right now while everyone continues to try to figure out their exposures during this unprecedented time. Overall, it is predicted that treaty premium will be reduced given the economic impact of the virus.

For upcoming reinsurance renewals, it is critically important to understand on how the policies respond to potential claims. It is crucial to review the primary policy and exclusions and keep all markets updated on their risk exposures. Some markets are even discussing if treaties should be extended to early fall, rather than renewing at the current expiration date. While reinsurer response was not favorable to this concept, that scenario could see reinsurers obtaining a greater rate increase.

In regards to audits scheduled for Q1 and Q2 of 2020, Lloyds has suggested that cancellations should be avoided. Instead, technology should be fully utilized and remote reviews should be offered in place of traditional onsite visits. This includes allowing remote file reviews, remote access document repositories, as well as interviews conducted by telephone or video conferencing facilities.

Lastly, as epidemic outbreaks become more frequent and severe, new products are being created to insure against this type of risk. Most traditional products require that business interruption be from physical damage and also typically exclude communicable diseases. Actors in the industry are working hard to close this gap and provide new epidemic risk transfer solutions in the future.

BMS Program Specialty Practice Group

BMS Re Us specializes in strategies for Program Managers and has developed a dedicated team of industry experts providing bespoke solutions focused on securing primary capacity, reinsurance needs, and beyond. In the last five years, BMS has grown our MGA/Program Administrator portfolio annually given the proliferation of entrants – both MGUs and capacity providers – into the segment. As a specialist reinsurance broking group, BMS Re US capitalizes on our expertise and high touch approach. We provide actuarial support, foster meaningful relationships with clients and markets alike, and generate insightful recommendations based on our market and industry knowledge. This enables our clients to enhance their opportunity for growth and profitability.

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