American Association of Managing General Agents

RAISING THE STANDARDS

Refining the Professional Trade Association for the Wholesale Insurance Marketplace

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Executive Summary

The wholesale insurance distribution marketplace has undergone dramatic changes during the course of the past decade. While consolidation among managing general agents and insurance carriers through mergers and acquisitions has caused the industry to constrict by reducing the number of active corporate participants, the opportunities for the market segment continue to expand among all those trading on a wholesale basis. The combination of automation and technology and economic factors following the market downturn in 2008, have forced market participants to redraft their business plans. Maintaining and seeking opportunities to increase market share have required participants to become more nimble, retrain their staff, and embrace those technological business processes allowing them to maintain their competitive edge.

Federal and State government regulations, new statutes and court cases have also had a considerable impact on the wholesale marketplace. While the Non-Admitted and Reinsurance Reform Act (NRRA) has modernized and eased the business processes of agents and brokers placing multistate risks in the Excess & Surplus Lines market, such that premium taxes on multistate risks are now paid only to the Home State of the policyholder in the large majority of the states, the precipitous decline of property tax and other revenues in states have caused them to examine ways in which to challenge the continuing freedom of rate and form that serves as the foundation of the marketplace.

In order to remain relevant and ensure the sustainability of the marketplace, wholesale insurance professionals continue to examine opportunities to expand their base, strengthen their relationships with both retail producers and their markets, and to differentiate themselves from the competition. As a result of these developments, the American Association of the Managing General Agents has similarly been challenged to reexamine its mission and value proposition. Members continue requesting additional resources and rely upon the Association in more ways than ever before. In addition, domestic and international markets, rating agencies, regulators and legislators have increased their reliance upon the AAMGA for guidance and information on the advisability of crafting new rules and procedures.

During the course of the past eight months, the AAMGA Board of Directors has undertaken a forensic examination of the Association's purpose, benefits provided to the members, and the impact of market consolidation on its balance sheet. Through a series of strategic planning sessions, every activity of the Association was reexamined as the Board of Directors looked forward and evaluated the relative strengths, weaknesses, opportunities and threats to the membership, the market and the Association itself.

The outcome of numerous meetings and ongoing discussions was the realization that in order to best position and maximize the potential of wholesale insurance professionals, their companies, the marketplace and the Association, it is incumbent upon the Association to refine and reinforce its membership base and refurbish its organization.

The AAMGA's main objectives are to provide its members with opportunities to network among their peers and market colleagues through the facilitation of trusted relationships; to enhance the intellectual capital of wholesale insurance professionals through a dedicated and integrated educational platform to thereby raise the competencies of the marketplace overall; and to advocate the integral importance of the wholesale insurance industry to legislators, regulators and in the courts across the United States, as well as in the United Kingdom.

In examining all of the opportunities and alternatives, the AAMGA Board of Directors has made the considered decision that a single facility is necessary to represent, and provide benefits, opportunities to, and advocate on behalf of all participants trading on a wholesale basis in the insurance industry. This requires the strategic step of opening the membership within the Association to wholesale insurance professionals meeting the established membership criteria. It also necessitates rebranding the Association to reflect its new identity and value proposition of bringing the wholesale marketplace under one consistent and credible umbrella.

Such action is not unprecedented. This White Paper provides a look back at the Association's history and the ways in which economic and market events caused it to evolve from its inception in 1926. From the original Association of Fire Insurance General Agents; to the American Association of Insurance General Agents in 1930; and finally, to the American Association of Managing General Agents in 1948. During each of the past changes to the Association, new market participants were added, membership rules were changed, and opportunities for the Association mirrored those the market afforded.

The White Paper also provides additional details on this extraordinary opportunity to continue the Association's evolutionary process by embracing the challenges and possibilities of wholesale insurance professionals and the marketplace; and by rededicating the Association's heritage of integrity and professionalism, its fundamental principles and existing core values to a facility representing the entire marketplace.

The Association will become the professional trade association focused solely on the entire wholesale insurance distribution industry while, at the same time, advancing each of the unique and individual constituencies comprising its ranks.

Introduction

The wholesale insurance distribution marketplace is continuing to undergo substantial change and development. Alternative distribution strategies together with more focused market approaches, the continuing impact (both in the short and long term) of risk modeling platforms, mergers and acquisitions as well as capital management initiatives, disintermediation and the ability to attract and retain qualified professionals, all continue to provide challenges to market participants from both the corporate and individual perspectives.

The wholesale insurance industry is comprised of various unique and divergent interests, whose alignment, purposes and lines of demarcation are not always separate and distinct. The channel has also seen an increase in the demographic representation that is emblematic of a similar array of new and uniquely positioned retail producers, policyholders and markets based upon the need for the provision of specialized suites of insurance products and services.

In order to remain resilient, while continuing to enhance the professional competencies and sustain the relevancy of the various individual and corporate participants comprising wholesale insurance industry, the Board of Directors of the American Association of Managing General Agents (AAMGA) spent considerable time over the past year examining whether the existing composition and goals of the Association are still appropriate, and how well the AAMGA is positioned to lead and adapt to future challenges, threats and opportunities. Given the current state of industry, and the need to sustain the continuity of the distribution network, it was clear that a new paradigm is needed.

From a strategic perspective, the Board observed several facts that are affecting the industry. The wholesale insurance marketplace:

- remains a marketplace founded upon trusted relationships complemented by the ability of professionals to network and trade with one another domestically and internationally;
- is positioned for growth, and given the current favorable conditions pertaining to the financial surplus and capacity of insurance carriers comprising the market, the continuing expansion of underwriting discipline across the industry and the embracement of advances in technology and automation, will continue to evolve and respond to industry and customer needs and opportunities;
- is comprised of numerous unique groups of professionals focused on specialty lines of business;
- is seeing conventional underwriting augmented and often overshadowed by risk models;
- will continue to receive threats from some market providers seeking to curtail costs and trade directly with the retail producer or the policyholder;
- will continue to receive challenges to freedom of rate and form, market uniformity and continuity from the state and federal courts, and will experience operational disruptions and increasing costs required by compliance with domestic and international regulators and legislators;
- requires additional resources and leadership to address continued challenges and to stay ahead of dynamic changes; and
- currently does not have a single entity to advocate, provide networking opportunities or further enhance professional competencies of all wholesale insurance professionals.

Moreover, due to mergers and acquisitions since 2007, the AAMGA has lost numerous managing general agent (MGA) members from within its ranks. While these entities and their employees continue trading in the market, they have become branch offices of a larger member. This has resulted in a precipitous loss of dues revenue, decline in attendance at meetings in the form of representatives of an entity and spouse/family attendance – while demands and requests for member services are increasing.

In light of these facts and anticipated future challenges and opportunities, the AAMGA Board of Directors has determined it appropriate to recommend that the Association take the lead in expanding its charter and enhancing its brand by:

- changing its name to more properly reflect its focus;
- open its membership ranks to those premier professional entities trading within the wholesale insurance distribution network meeting specific membership requirements and subject to a professional vetting process;
- providing a facility that will continue raising the professional standards and competencies of the market, afford networking opportunities to its members across the market, and advocate for the entirety of the wholesale insurance industry; and
- maintaining the core principles and values by which the Association is currently known and respected.

Most importantly, the AAMGA Board of Directors has determined that in light of current market conditions and future challenges faced by the industry, this is more than just an opportunistic recommendation. Rather, it is a bold initiative that is required in order to sustain the continuity of the Association, foster the relevancy of its practitioners, and to advance and protect the wholesale insurance industry as an indispensable marketplace for the securitization of specialized risk exposures.

A new name to be selected by the Board of Directors will be required to properly reflect the expanded scope and focus of the professional trade association for the entire wholesale insurance distribution industry.

What's Past is Prologue: the History and Evolution of the AAMGA

While the issues facing Managing General Agents and the rest of the wholesale industry today seem to be novel and incredibly complex, a look back suggests that the AAMGA and its members over time have confronted challenges remarkably similar to those presented today, and have continuously adapted and changed in order to meet the demanding times. In doing so, the Association remained the valued and respected leader of the industry, continuing to influence and effect positive change in the market.

The Association of Fire Insurance General Agents

The AAMGA traces its roots back to 1926 when seven supervising agents decided to meet in a small hotel on Signal Mountain, Tennessee to discuss the strategic issues facing the fire insurance marketplace at the time. Out of those discussions, the Association of Fire Insurance General Agents (AFIGA) was born. As stated in the archives and corporate history books, the Association's initial purpose was to bring a:

> closer contact between general agents and for a medium for the interchange of information, for the discussion and solution of mutual problems, and for the elevation of the profession of fire insurance.

This charge was further developed during the Annual Meeting in Asheville, North Carolina in 1928, where the AFIGA's President, James B. Roth remarked:

> We can ill afford to allow the problems we face today and the challenges we will encounter tomorrow to remain unaddressed when, it is clear, that our good agents working together can resolve those issues and provide salient solutions for the betterment of not only themselves but the industry as a whole. The gravamen of our work in the past will have been for naught if we fail in our calling to embrace what we see on the horizon and prepare ourselves, and our industry, for what lies ahead, lest we be led by those who do not share the same commitment as we and, thus, be required to fall in rank behind those who seek to take the flag from those of us who continue building the foundation of this association. We now must seize the opportunity and act in accordance with our respected stature and good faith.

Part of the goal of the Association was the establishment and maintenance of the high standards of professionalism and integrity in the conduct of the business. By creating an association of agents with a large market share, it was believed that other smaller companies would be forced to meet those high standards in order to continue to do business and, thereby, ensure the enhanced competencies of the industry overall. The Association's early years were focused on defining membership criteria, and on the problems associated with individual state efforts (or lack thereof) to regulate rates.

The American Association of Insurance General Agents

In 1930, the Association's Board of Directors conducted a strategic planning session and decided a new direction and name change were necessary due to changes in the distribution of insurance products and services, and opportunities for expansion within the membership ranks. The new American Association of Insurance General Agents (AAIGA) immediately felt the effects of market changes. Due to the resilient nature of its members, those challenges were met head-on.

In the economic downturn of the 1930s, the Association had to deal with a decrease in its membership and general agency mergers as smaller, less profitable, agencies were no longer able to survive on their own. Then, during World War II, Annual Meetings of the Association were suspended in respect of the members who were drafted to serve abroad.

The biggest development was the passage of the McCarran–Ferguson Act in 1945, reversing a Supreme Court decision that had found insurance subject to federal regulation, and preserving the area of insurance regulation to the states, except where the state system is found not to perform satisfactorily.

The American Association of Managing General Agents

In 1948, when insurance companies were permitted to write both fire and casualty insurance post-World War II, the Association opened its membership ranks to casualty general agents, and changed its name to the American Association of Managing General Agents, or the AAMGA.

As a result of companies now writing both fire and casualty, the 1950's saw an increasing number of mergers and acquisitions which, again, resulted in decreased membership and a substantial drain in the Association's revenues and equity position. The membership ranks were comprised primarily of family-oriented businesses, which were being acquired by larger organizations for the distribution channels that had been developed.

In addition, it was during this time that the archive records reflect many senior MGAs were approaching retirement age and, if no succession plan was in place or family member was prepared to take over the business, the agency was sold to a carrier as a branch office, or to another MGA. This also accounted for a declining number of members attending the Annual Meetings.

By 1964, the Association's membership had continued decreasing, with financial considerations impacting Annual Meeting attendance and the publication of Association Minutes and "Proceedings," which were summaries of the annual meetings. Significantly, by the late 1960s, the Association Board leadership realized that a change was necessary, and appointed several younger association members to head committees in order to encourage the involvement of younger agents. In order to advance this effort, the Association opened its ranks again - this time to competing specialty MGAs - creating new committees and focusing on the changing industry needs.

In the 1970s, the industry grappled with increased centralization of carrier operations, as markets began to rely upon expanded business communication and greater availability of air travel, similar to the technology challenges facing the market today. At that time, MGAs adapted to the situation, and moved away from more traditional lines of business, developing specialty, excess and surplus lines of coverage to supplant their traditional standard property and casualty markets.

The Association struggled with how best to address these ongoing challenges over time – and responded by evolving and reshaping its charter, focus and membership to allow adaptation to the changing times.

During the 1980s and 1990s, the Association was comprised of numerous family-oriented managing general agencies, which traveled together with their families, met in zone meetings and at the Annual Meeting. The purpose of the meetings was to exchange ideas, address problems and look for solutions to advance market share in the State in which members were situated pursuant to the contracts of delegated binding authority maintained with the markets. As licensing requirements and market opportunities changed, competition increased causing most of the MGA's to either acquire smaller agencies in adjacent states or opening operations in other jurisdictions based upon their areas of specialty or distribution of products for the markets that had entrusted those to them.

The market again, however, was beginning to change. Carriers were performing greater scrutiny of agents, requiring greater documentation, business and line of business plans, disaster and business continuity arrangements, succession plans and increasing data in order to comply with the requirements of capital providers, actuaries and risk models to better define the manner in which their capacity and aggregate limits of liability were distributed. The market was becoming more demanding of an enhanced business acumen resident in the agents to which they are entrusting their underwriting pen.

In the year 2000-2001 the financial demise of the Association's management company at the time (Martin Fromm and Associates), afforded the Board of Directors to again review the AAMGA's position in the market, and consider whether its current operation and orientation could withstand the increasing business-related focus and requirements of the market. Decisions were made to:

- expand and enhance the educational offerings through the AAMGA University;
- create and implement a new strategic plan;
- develop collaborative new alliances with domestic and international industry colleagues;
- become more engaged in federal and state legislative and regulatory affairs; and,
- while maintaining the social and personal relationships that support professional business opportunities, to strengthen the business oriented focus of the Association.

These were bold and innovative decisions that have served the Association well over the past decade in advancing its brand, enhancing its reputation and respect both within and outside of the industry, and in charting the best course to keep members better served, informed, prepared and represented.

Today, the AAMGA represents 241 managing general agent members in all 50 states writing a combined $20.6 billion in excess and surplus lines and admitted annual written premium domestically and internationally.

The Association also represents 150 US and international risk bearing (80%) and non-risk bearing (20%) Associate members; 40 Business Services members serving the wholesale insurance market; and all of the 14 US State stamping and surplus line service offices. These 445 corporate entities comprise the premier members of the wholesale insurance distribution industry.

In addition, since 1991, the AAMGA's Under 40 Organization (UFO) has grown to represent over 355 young industry professionals in the market today. The commitment to this next generation of leaders also continues to ensure the vitality and future of the marketplace.

The Challenges & Opportunities of Today's Wholesale Insurance Marketplace

The landscape faced by today's wholesale insurance professional is wrought with unique challenges and opportunities, some of which are not unlike what the industry has seen as it has evolved over the past century, while others are new based on the growing nature of the international connectivity of insurance[1]. The conditions are a combination of both internal/operational and external/market challenges that will continue to test the resilience, adaptability and vitality of the industry and its professionals.

Operationally, market practitioners (trading in both the excess and surplus lines and admitted markets), are presently facing:

- continuing challenges of the two "T's": Technology and Talent
- business continuity and perpetuation/succession issues
- updating legacy systems to improve business processes and reduction of expenses, and the ability to remain ahead of or keep pace with these developments
- increasing costs of licensing and compliance requirements
- costs and abilities to enhance the qualitative educational and professional development of staff beyond mere continuing education licensing requirements
- human resources issues within the operation
- increasing health care regulations and compliance costs for existing rules and those still being written
- while rates in some lines of business are firming, the "hard market" remains elusive
- continuing low interest rates yielding diminished returns on investment
- threats of disintermediation
- comparative raters devaluing and commoditizing unique product offerings
- challenges on remaining relevant during the continuing dynamic shifts within the market

From the marketplace and external forces, factors influencing wholesale insurance professionals include:

- another year of continuing mergers and acquisitions
- domestic and international regulatory mandates and oversite, and the issuance of new guidance requirements,
- increasing the costs of compliance and infrastructure further challenging cost levels and business models
- new accounting regulations and the challenges of oncoming international convergence and coordination or competition for regulatory supremacy between federal and NAIC/state based approaches
- impact of risk models encroaching upon traditional underwriting decisions and functions
- market demands for increasing data analytics[2] and premium rate increases, as well as the increasing frequency of markets seeking to integrate with the IT systems of wholesalers by seeking to upload and download functionality
- economic uncertainty
- political instability
- increasing competition and new distribution methods seeking to access the rapidly changing customer base
- legal and statutory challenges to the freedom of rate and form
- the continued impact of capital providers leveraging and deploying (or not deploying) surplus, thereby influencing market conditions, and
- the prospect of claims inflation caused by years of soft premium, while the frequency and severity of claims and ALAE have continued increasing.

Age of Regulatory Oversight

A wave of insurance company insolvencies in the 1980s sparked a renewed interest in federal insurance regulation, including new legislation for a dual state and federal system of insurance solvency regulation. In response, the National Association of Insurance Commissioners ("NAIC") adopted several model reforms for state insurance regulation, including risk-based capital requirements, financial regulation accreditation standards and an initiative to codify accounting principles. As more states enacted versions of these model reforms into law, the pressure for federal reform of insurance regulation seemed to wane. However, in the wake of the financial crisis of 2008, issues surrounding AIG Insurance Company and the issues of systemic risk and financial institutions deemed by the federal government to be "too big to fail," pressure for federal oversight - and potential regulation - of the insurance industry have been renewed.

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1 The recently released report of the World Economic Forum on "Global Risks - 2013: Eighth Edition," cites the top five global risks most likely to manifest over the next 10 years as severe income disparity, chronic fiscal imbalances, rising greenhouse gas emissions, water supply crises and mismanagement of an ageing population.

2 Insurers are engaged in an industry-wide effort to more effectively engage with customers, exploit information and analytics and manage risk, according to "Top Issues: The Insurance Industry in 2013," from PwC, an annual report on opportunities and challenges for insurers. http://www.insurancenetworking.com/news/customer-engagement-information-risk-management-31975-1.html.

The most recent challenges to the state insurance regulatory system are arguably the most significant, with the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), signaling a clear foray of federal law into the insurance industry. The post Dodd-Frank era, and the implementation of the Non-Admitted and Reinsurance Reform Act (NRRA), and the creation of the Federal Insurance Office (FIO), have all ushered in a new age of regulatory supervision at both the state and federal level. For the wholesale and surplus lines market, these developments unquestionably have significant implications.

With the creation of the Federal Insurance Office ("FIO"), charged with studying and collecting information on the insurance industry and the state insurance regulatory system; and the much-anticipated FIO report[3], insurance regulation, long viewed as almost exclusively within the province of the states, is clearly now within the reach of both state and federal lawmakers. Financial reforms have also added more federal requirements to the overall regulatory framework.

Increasing involvement of the federal government into the insurance market highlights the need for the Association to continue its role as a responsive and reliable industry leader in the arena, monitoring and expressing positions on state and federal issues affecting the wholesale and surplus lines industry. In order for the Association to keep its members informed and educated given the changing regulatory landscape, the Association must keep its seat – and its voice – at the table. The ability to continue in the role of effecting change and discourse at the state and federal level, means that the Association must be representative of the market for which it also speaks.

Low Interests Rates Require Search for Alternate Investment & Income Options

Low interest rates will continue to impact investment yields for the foreseeable future as the Federal Reserve has indicated interest rates will remain at low levels through at least mid-2015.

Decreasing investment income limits the industry's ability to generate a return on equity that will satisfy stakeholders if companies continue trying to provide a product at a competitive rate. Even with some evidence that premium rates are increasing in certain selected markets, the industry will still need to search for ways to improve income. The magnitude and implications of the risks of low interest rates also highlight the importance of having sound risk management and capital programs in place. The ability of insurers to also count on positive prior accident year development as a balance sheet driver is also uncertain going forward.

Insurers need not only to manage to base scenarios, but to understand the impacts of and prepare for extreme events as well. Defining the firm's risk appetite, setting appropriate risk tolerances, identifying relevant stress tests and measuring exposures to these risks are all important aspects of the new sound risk management program.

Increased Demands for Automation/Technology Innovation

Developments in technology are dramatically shaping and reshaping customer expectations and needs. Mobile and online services are essentially standard, and customer expectations are being driven by the use of smartphones, tablets and computers - now virtually ingrained in society.

Wholesalers who want to lead the market need to be on the front end of these technological developments. Advanced analytics and updated technological processes will allow carriers and wholesalers the ability to obtain in-depth information about their customers. Wholesalers' ability to access and use the technological developments to their and their carriers' advantage will be instrumental in their ability to differentiate themselves in the marketplace. The ability to respond to regulators' demands for data and information will also require technology system modernization.

Catastrophic Loss Events and Increased Focus on Modeling & Predictive Analytics

The insurance industry has historically relied on the past as a reliable indicator of the future. In the case of natural catastrophes, that reliance may no longer be warranted inasmuch as the natural catastrophes that have occurred in the past few years are the type that are described as "once-in-five hundred years" type of events.

[3] At a meeting of the Federal Advisory Committee on Insurance on March 13, 2013, Federal Insurance Office Director Michael McRaith advised that publication of a long-overdue statutory report on recommendations for modernizing and improving insurance regulation is expected before July 2013. At the FIO's request, AAMGA provided comments on several inquiries surrounding insurance regulatory modernization in 2011. Additional meetings between Executive Director Bernie Heinze and FIO staff took place in Washington, DC on February 20, 2013.

Catastrophic losses reached a near record in 2011 (approximately $67 billion) due to floods in Australia, earthquakes in New Zealand, the tsunami in Japan, tornados in the U.S., floods in Thailand and hurricanes in the northeastern U.S. In 2012, insured losses (approximately $58 billion) again reached record levels due to Superstorm Sandy (now relegated to the third costliest tropical storm in US history), extreme drought in the U.S., and record losses resulting from tornadoes and thunderstorms in an otherwise relatively benign year for hurricanes making landfall.

The combined impact of these events on the market continues to be significant. First, given that the totality of these events has resulted in major losses for the insurance industry, they will effect changes in coverages as underwriters seek to contain loss. Such changes include modifications of sub-limits for both named perils and coverage type. Changes in coverages offered in the marketplace, and pricing for such coverages, will have an impact across the AAMGA membership and will also impact other market players.

With returns on investment income remain limited, carriers will focus more attention on underwriting, seeking to rely on new and revised predictive analytics.

Finally, all of the above demonstrates the growing reliance by capital providers on reliable modeling and other predictive analytics to assess catastrophe loss exposure. Previous models have largely been inadequate, but new RMS versions (recently RMS 11.0, and now RMS 13.0 anticipated to be released in the Fall 2013), attempt to assess hurricane loss, and are projected to increase hurricane loss estimates in Texas and the Northeast, suggesting losses are located further inland than previously estimated. These models will further impact the market, including both insurance and reinsurance rates. Innovative predictive modeling capabilities could also result in new lines of business and products that cover emerging risks.

Globalization and Solvency Issues Worldwide

There are significant changes ahead for both European and U.S. insurance regulation. In Europe, Solvency II promises a fundamental review of solvency and risk management standards, intended to replace 14 European Union insurance directives constituting the Solvency I. In the U.S., the NAIC's Solvency Modernization Initiative, ORSA, is an intensified focus on the key factors of solvency protection.

While there are a variety of differences in approaches and focus, it is clear that the unifying messages are (a) insurance continues to become more global in nature, and (b) that companies need to have a clearer understanding of their own risks. These new regulatory regimes are requiring companies to forego more traditional risk-based capital analysis, and to move towards substantive assessments of risks, including enterprise risk management (ERM). To respond to new regulatory structures, insurers will need to build internal frameworks to analyze and routinely show the results of their testing of the portfolio and surplus, including increased transparency surrounding their processes, to present the strength of their balance sheets to rating agencies and regulators.

The manner in which these regulatory and market compliance changes will impact US insurance wholesalers remains to be seen. However, it would not be premature to postulate that regulatory requirements overseas will need to be reconciled with existing equivalent domestic protocols, or mandate compliance changes for MGA's trading within Lloyd's, the London Market or elsewhere - whether on primary, excess/umbrella or the reinsurance of treaty and quota share/facultative placements. US wholesale practitioners will be continuously benefitted by a single respected Association able to articulate their views, assist in drafting and ensure a fair treatment of only those regulations deemed necessary under the circumstances[4].

Generational workforce shifts and resulting demands for new talent

Despite continued high unemployment and under-employment levels, the insurance industry is faced with a serious talent "gap" as companies seek educated young professionals who can step into underwriting, actuarial and claims adjusting roles.

The "gap" results in part from shifting workplace demographics. Consider that the Baby Boom generation (those born between 1943-1960) makes up almost half (45%) of the workforce today, and a majority of that workforce will be in or fast approaching retirement in the next 5-10 years[5]. Coupled with the limitations of an aging workforce, is the need for the current workforce to be highly skilled in technology as the industry seeks

[4] The AAMGA was recently asked by the Corporation of Lloyd's to provide feedback and recommendations on proposed amendments to US delegated binding authority wordings. A comprehensive memorandum was provided to Lloyd's on March 29, 2013.

[5] Responses to the Association's year-end survey in 2012 among MGA members indicated 52% of those employed are under the age of 40 years old, and 48% are over the age of 40 years old.

to implement or create technology-driven analytics to improve their products or processes.

In the wholesale insurance industry, this gap is also seen when family-owned businesses with no succession plan sell or merge with a competing agency. For AAMGA, this has implications for its membership base. As the older workforce retires and leaves the industry (and membership in the AAMGA), it will be crucial to involve and motivate younger agents, and to appeal to a more diverse segment of the wholesale market.

In each of these challenges, numerous opportunities for the wholesale insurance marketplace are also resonant as practitioners adapt to changing market conditions, exploit risk needs not being met by other markets and having the flexibility to quickly customize coverage and pricing around specific customer requirements. Throughout the development of the wholesale market, its practitioners have developed the ability to act as consolidators for their retail producers, and to provide specialized and localized underwriting knowledge and expertise. Moreover, wholesalers are able to offer streamlined process enabling faster underwriting decisions and the ability to deliver policies more quickly. The trending data maintained also underscores the wholesale professional's ability to afford its markets programs and policies that are more profitable.

Over the next five years, wholesale insurance professionals and markets will need to continue working collaboratively to leverage technology so that operations and transactions can be further expedited in the new age of "hyper-speed" to market. Examinations will be performed to identify and extract those remaining inefficiencies that can be further reduced in the insurance transaction to deliver underwriting expertise and market flexibility more quickly to the buyer. These efforts will be influenced by the availability of capital investments for new programs and competencies due to the slow economic recovery and the industry's ability to grow. New ISO and manuscript coverage forms will meet the ever-changing needs of customers provide unique opportunities to the wholesale channel.

In 2013, the continuation and intensification of sluggish market conditions, depressed investment income[6] and increasing regulatory complexity and, often conflicting compliance standards internationally, and among the states domestically, will impact the wholesale insurance industry.

The AAMGA's current efforts with the NAIC on establishing uniform eligibility requirements for excess and surplus line insurance companies and market security issues; availability and affordability of insurance meetings with the Federal Insurance Office; meetings with Senate and House of Representative Members and staff on the need to adopt the National Association of Registered Insurance Agents and Brokers (NARAB II)[7] clearinghouse legislation (HR 1155, and S. 534); and discussions with Alabama, Washington and Maryland state regulators on inconsistent interpretations of insurance statutes impacting our members; and overturning the Supreme Court of Florida decision on an erroneous surplus lines insurance statutory interpretation, are just several examples.

Organic growth and market development are effected by economic forces that also depress revenues and increase competitive challenges to pricing, and profitable market penetration as insurers look to maintain and grow market share. As a consequence, insurance markets are looking for alternatives in extending risk for added yield, and alternative solutions to fill the income gap left by low investments. Markets also are seeking unique distribution models - to which wholesale insurance professionals can and are responding.

Impact of Wholesale Insurance Market Issues on the AAMGA

As these challenges and opportunities impact wholesale market professionals and organizations, they are similarly affecting the AAMGA.

Today's AAMGA finds itself in the same position as the Association has seen on previous occasions over the past 87 years. Industry consolidation through mergers and acquisitions of agents and brokers since 2007 through 2012 has escalated leaving fewer corporate market participants. The larger brokers have become larger,

[6] Notwithstanding the developments in March 2013, market investors remain uncertain how long the recent rise in the Dow Jones Industrial Average and NASDAQ consolidated stock price performance will be able to continue.

[7] The National Association of Registered Agents and Brokers was first recommended by the Gramm-Leach-Bliley financial reform legislation in 1999, but never instituted. This bipartisan legislation would formally create NARAB as a non-profit, independent board comprised of state insurance commissioners and insurance market representatives. After passing background checks in their home states, insurance agents could apply for NARAB membership, allowing them to sell insurance in other states. The bill will afford reciprocity for agents and brokers in other states, once they are in compliance with the licensing and continuing education requirements of their home state. It also includes provisions to ensure transparency and consumer protection while also empowering NARAB to levy disciplinary measures on agents who do not adhere to board guidelines. The AAMGA was asked to and submitted Testimony in Support of NARAB II to the US Senate Subcommittee on Securities, Insurance and Investment of the Committee on Banking, Housing and Urban Affairs.

making the competition more difficult for the smaller participants. The merger and acquisition transactions during this period are as follows[8]:

- 2007: 279 transactions
- 2008: 253 transactions
- 2009: 154 transactions
- 2010: 258 transactions
- 2011: 315 transactions
- 2012: 312 transactions

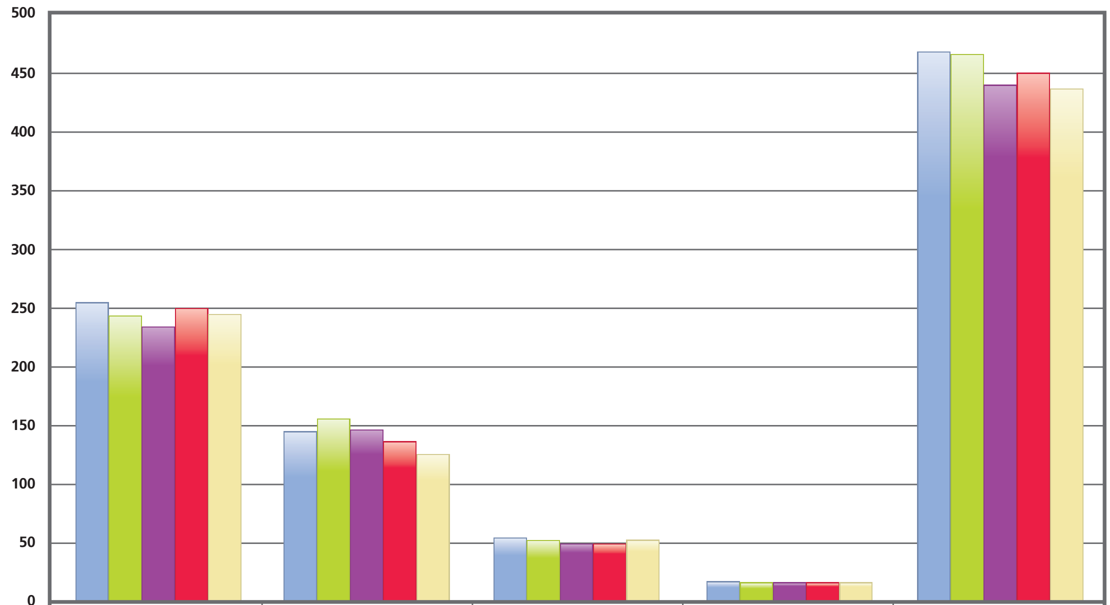
The same holds true for MGA members as mergers and acquisitions increased following the issues arising out of the financial downturn starting in 2007. Over 30 prior full-paying dues MGA members have become relegated to branch offices of the acquiring entity and are sending less numbers of employees to AAMGA meetings and University classes[9].

Carriers are also sending less of their underwriters to Association events, while others have not renewed their AAMGA membership, choosing instead to focus on program managers, aggregators and others to distribute their products. However, requests from members for tools, resources, services and assistance continue increasing. Moreover, the AAMGA's volunteer Committee[10] members that form the infrastructure of the organization's establishment of goals to move forward on initiatives benefitting the members and market, and are developing more objectives to be accomplished annually. Costs and expenses required to facilitate the Annual Meeting, Automation Conference and UFO Annual Meeting, as well as University Sessions, at venues across the country continue increasing, while registration costs have remained constant.

The impact of these developments has had a precipitous impact on the Association's membership numbers. Despite the fact that over 40 new members have been added to the roles during the past 3 years, the net decline in membership remains as shown on the chart below:

American Association of Managing General Agents

Historical Membership by Type



	MGA	ASSOCIATE	BUSINESS SERVICES	STAMPING OFFICES	TOTAL
2009	253	143	54	15	465
2010	242	155	53	14	464
2011	232	145	47	14	438
2012	249	136	49	14	448
2/12/2013	244	125	52	14	435

[8] Source: MarketScout, Council of Insurance Agents & Brokers, Dowling Hales & Company.

[9] Another factor arising out of recent market changes has been a precipitous decline in the number of spouses and family members attending the AAMGA Annual Meetings compared to the 1970's - 1990's.

[10] The Association's standing committees are: Automation, Governmental Affairs, Human Resources, Marketing, Membership, and Operations. In 2012-2013, the Committees were comprised of 101 volunteer members, 68% of which were male and 32% were female; with 61% being MGA members and 39% being Associate and Business Services members. The Under Forty Organization and its separately elected Board are also serviced through the Association's management company.

While the AAMGA and Education Foundation independently audited balance sheets and financial statements remain strong and the equity position is stable, the Board has taken a view of the existing issues and future challenges to the industry, our members and the Association. It has realized that maintaining the current membership structure of the Association is not sustainable for the long term requirements that will be needed by existing and future members, and the wholesale insurance distribution network, generally.

Since 1926, the AAMGA has served as the trade association to international wholesale insurance professionals, and as a leader representing the interests of its members before federal, state and local governments and regulatory agencies, and other industry trade associations in the US, Canada and Europe. As a leader in the industry, the AAMGA has always sought to differentiate itself and its membership by holding itself to exceptional standards of professionalism and integrity, as well as actively enforcing its longstanding Code of Ethics. In order to maintain these standards, membership in the AAMGA remains highly selective, requiring members to meet the highest standards of excellence, experience, integrity and insurance company representation.

Moreover, wholesale market professionals and regulators in the Lloyd's and London Open Markets regard the AAMGA as the "the gold standard," as the "association of consistent professionalism" and "the reliable portal of information to lead the market."

The AAMGA has earned its trusted reputation by serving as the catalyst to industry practitioners focused on the wholesale insurance marketplace. The current economic environment presents significant challenges to the property/casualty wholesale insurance market; and the continued success and prosperity of the AAMGA, and its membership, are no exception. AAMGA must adapt to these challenges by being proactive, re-examining how its members do business and will do business in the future, and by adapting to the needs of the evolving workforce.

Today's Other Wholesale Insurance Market Practitioners

As the AAMGA continues to advance in this role, and prepares to continue leading the marketplace into the future, it must also address and understand the various practitioners now trading in the wholesale insurance industry. Managing General Agents no longer monopolize the channel. The past years have seen the advent and growth of the program administrators market, along with aggregators, brokers and managing general underwriters, also transacting business within the wholesale market.

Program Administrators

We are advised the 12th Annual Meeting of the Target Markets Program Administrators Association (TMPAA)[11] held in Scottsdale, AZ in October 2012 was the largest attended in the organization's history. Demographic reports place the size of the Program Market at 700 Program Administrators, with 50% conducting business on both an E&S and admitted basis in the wholesale industry, with the remainder trading in either one channel or the other, many of which are also operating on a wholesale basis. Many AAMGA managing general agent members also belong to Target Markets[12], along with numerous markets[13].

The "Annual Survey of the Program Administrators Market[14]" valued the program administration market at $24.7 billion in premium, up from $22.6 billion in 2011. It found an estimated 2,000 individual programs, up 5% from the prior year, an average growth in premium volume of 9% and a renewal rate of 84%. Average annual premium based on the size of the Program Administrator ranged from $5 million to $800 million.

Similar to the anecdotal evidence received from AAMGA Lloyd's broker members, the London and International Insurance Brokers Association (LIIBA), and Lloyd's representatives in London, the Report noted markets trading with Program Administrators identify

[11] The Target Markets Association was recently sold to the Breckenridge Insurance Group, a specialty underwriting manager, wholesale broker specializing in insurance services based in Atlanta, GA.

[12] The Report notes nearly 30% of Target Market members also belong to NAPSLO, and nearly 20% belong to AAMGA.

[13] These include: ACE (UK); QBE; XL; Scottsdale Insurance Company, Western World Programs, Meadowbrook Insurance Group, Western Heritage Insurance Company, and Markel Programs. The Report notes that of 43 insurers responding to the Annual Survey, 45%, or 20 carriers also belong to AAMGA; and 69% or 30 carriers also belong to NAPSLO.

[14] The "TMPAA State of Program Business Study 2012" was jointly funded by Scottsdale Insurance Company, Western Heritage Insurance Company and Advisen, Ltd.

the "specialization, analytical data pertaining to the programs, marketing strategy and control over the books of business as the drivers of capital and aggregate to wholesale insurance practitioners." The Association also has approximately 200 vendor members[15].

While some Program Administrators also trade as retail agents, many transact their business on a wholesale basis.

Aggregators and Managing General Underwriters

There is presently no professional trade association serving wholesale insurance practitioners who conduct their business as aggregators or managing general underwriters (MGU). Further, the definitional criteria of what may constitute an "aggregator" and an "MGU" are often less than clear. Therefore, no demographical data on these entities and the extent of their involvement is immediately attainable.

Impact on Other Trade Associations

The Association has worked hard over the years to develop and maintain a collaborative and trusting relationship with other professional trade associations sharing its views and those of our members. Many AAMGA members belong to one or more of these other associations as well.

The advancement of the Association's focus is not meant to have any impact on any other insurance or professional trade associations with whom we will continue to work. In fact, it is anticipated that those currently belonging to the AAMGA and other associations will maintain those memberships in order to obtain the complementary benefits each organization provides. On the other hand, the new Association, that will be open to all insurance professionals trading on a wholesale basis, will provide an opportunity for membership to those meeting the membership requirements and not belonging to a professional organization, as well as those who would like to be a member of the Association that represents the entirety of the wholesale industry.

The Proposed Way Forward

There are three core components to every professional trade association:

- Networking
- Education
- Advocacy

Over the past 87 years, the AAMGA – and its predecessor Associations - have added several others.

- Trusted and Fraternal Relationships
- Adherence to Ethical Business Principles and Practices
- Personal and Professional Accountability
- Peer Credentialing
- Continuity and Consistency
- Development of Young Professionals

The Association's reputation in the global insurance community has increased continuously over the past decade. The respect for its position and reliable information is, similarly, an enviable one. Going forward, the Association will maintain and further embed these strengths and its other assets across the entire wholesale market. This will best represent and advance its members, afford opportunities to member volunteers for committee and Board service, influence resolution of the regulatory and legislative issues, and make an impact on the continuity of the wholesale insurance industry.

To better leverage its goals and objectives, and sustain the future of the Association, the Board believes membership must be opened to all eligible wholesale insurance entities trading in the market. This will enable the Association to position its heritage of integrity and professionalism and, thereby, assure the ability to provide greater benefits to its members and preserve the continuity of the channel. Equally as important, the Association will give voice to the entire wholesale insurance industry; thereby ensuring a consistent message, stronger and more skilled professionals, greater market confidence, and bringing the premier members of the market under one roof.

In order to take the next step in the Association's evolution, the Board has decided to recommend to the membership that actions to include the following be taken:

1. The AAMGA will change its corporate name to better reflect its new focus, with a name to be decided upon by the Board of Directors. Names currently under consideration include:

   a. American Association of Insurance Wholesalers (AAIW)
   b. American Association of Wholesale Insurance Professionals (AAWIP)

[15] In comparison, the AAMGA presently has 40 Business Services members.

c. International Association of Insurance Wholesalers (IAIW)

2. The new logo and brand of the Association will be filed for protection with US Patent & Trademark Office:

3. Similarly, the AAMGA Education Foundation will amend its corporate name to mirror that of the trade association

    a. All designations, and existing educational programs will be retained; however, it is anticipated new courses, educational tracks and professional development will be expanded to afford a complete suite of knowledge transfer through conventional in person and web-based tutorials

4. Georgia State University will be advised to amend the name of the Chair of Rick Management and Insurance to mirror the new name of the trade association

5. Reincorporation of the Association and Education Foundation under the new name

    a. This will also include amending the respective federal tax exempt and charitable status of the Association and Foundation with the Internal Revenue Service, and renaming of the operational bank and investment accounts

6. The Bylaws of the Association will be amended with immediate effect to reflect:

    a. the change in corporate name and objectives
    b. opening of membership to the network of all eligible entities transacting excess and surplus lines and admitted insurance business on a wholesale basis within the industry
    c. the assurance that new member admission criteria mirror those of existing membership requirements so as to afford membership to only those premier members meeting the standards

        i. The following member requirements will be retained for all new members:

            1. Minimum annual written premium requirements of $1 million
            2. Minimum time of one (1) year transacting business on a wholesale basis
            3. Writing of a minimum of one (1) line of business with one (1) market solely on a wholesale basis
            4. Letters of recommendation from three (3) existing members
            5. Subscription and annual certification that the proposed/renewing member complies with the Code of Ethics, and
            6. Approval by the Board of Directors

    d. voting on the change to the Bylaws will take place following the required 30 day notice period in June - July 2013.
    e. it is anticipated future amendments to the Bylaws will be made to afford Board representation to new member category entities

7. A public relations firm will be engaged to assist in the transition and announcement, branding and development of the new Association

8. The Annual Meeting Agents & Brokers Lounge will either be expanded into sections to allow unique communities of interest to transact business with one another, or a separate meeting may be added to accommodate non-MGA members and the wholesale markets with whom they wish to network and conduct their business

9. The Under Forty organization will be retained and expanded to allow employees of eligible new members to join and network with their peers

10. The Association Headquarters staff will add one additional support person to handle administrative requirements of new members

11. New collateral materials, website and related resources will be developed with the new brand.

This action will also make membership in the new Association more valuable to eligible members as they now will join all those other eligible and premier members of the entire wholesale insurance community, as opposed to merely a segment of the industry. It is anticipated that new members may well maintain their existing affiliation(s) with other trade associations, but will utilize the new Association to foster their relationships and transact their business opportunities.

It must also be stated that the impetus of taking this innovative action is not to make the existing Association "bigger." Rather, it is to make the Association stronger, advance the entire wholesale industry, and be able to assure its future stability and the relevancy of wholesale insurance professionals.

Conclusion

Since 1926, each time the Association has confronted challenges and difficult issues, it has embraced the opportunities and new strategies to improve the prospects for its members and the market. The new realities of the wholesale insurance market demand a single, strong and collaborative voice representing and advancing those industry practitioners and stakeholders on whom the market relies for its continuity.

It is time to do so again.

What was said in 1928 remains true today:

> The gravamen of our work in the past will have been for naught if we fail in our calling to embrace what we see on the horizon and prepare ourselves, and our industry, for what lies ahead, lest we be led by those who do not share the same commitment as we and, thus, be required to fall in rank behind those who seek to take the flag from those of us who continue building the foundation of this association. We now must seize the opportunity and act in accordance with our respected stature and good faith.

The Board of Directors of the American Association of Managing Agents, following due consideration and a complete examination of the issues and options, respectfully recommends the membership adopt these membership and corporate improvements to improve the wholesale insurance industry, sustain the relevancy of the professionals trading within it, and the longevity of the professional trade association charged and entrusted with the advancement of the principles, performance and perpetuation of the wholesale insurance distribution marketplace.