

ADVISORY CONSULTING

# MGAS: A CATALYST FOR INNOVATION AND GROWTH



## A ReSource Pro Research Report

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### ReSource Pro INSIGHTS

ReSource Pro Insights offers a broad range of research and observations on the insurance industry. We provide substantial studies, analysis, and perspectives on business and technology strategies and plans across the P&C ecosystem, covering retail agencies and brokers, MGA/wholesalers, carriers, and tech vendors. Our coverage includes distribution, underwriting, policy servicing, billing/payments, and claims business areas, as well as cross-enterprise areas such as strategic initiatives, digital transformation, innovation, customer experience, and talent.

## THE NEW, EVOLVED MGA MODEL

MGAs have always thrived because of their relationships and their expertise. Carriers rely on MGAs because of their deep understanding of specific customer segments, the risks associated with those segments, and the innovation to create the right programs to address those risks. Agencies and brokers also rely on MGAs for their market access and their segment expertise. These fundamentals have not changed, although the increasing specialization in the industry has resulted in a need for even deeper expertise on more discrete industry vertical subsegments.

One aspect of the MGA world that has changed significantly is the need for sophisticated technology platforms and data/analytics capabilities. MGAs can no longer rely primarily on being market makers based on their distributor and carrier relationships or their reputations related to specific types of customers and areas of risk. Now, they must also have increasingly efficient operations and insights into customers and risks augmented by analytics and AI solutions.

Agencies and brokerages that work with MGAs now increasingly expect them to provide the types of digital sales and servicing capabilities once provided exclusively by carriers. When this is combined with the increase in delegated authority, the result is MGA entities that operate much like carriers. It could be argued that MGAs have the most varied tech stack in the P&C ecosystem. It is not uncommon for MGAs to have a complex tech stack leveraging core systems, CRM, agency management systems (AMS), and more. And it is equally common for some MGAs to run lean, with custom in-house solutions that have been used for years.

That said, the dramatic growth of the E&S market over the past decade and the InsurTech movement have been catalysts leading to newly evolved models for MGAs. The prospects are bright for continued growth and success for MGAs in the next decade as the industry seeks to meet the changing needs of customers and the changing risk landscape.

This ReSource Pro Insights report will examine the current state of the P&C ecosystem and the role MGAs play. We will explore their business models, key differentiators, partnership strategies and plans, technology landscape, and finally, the future of the MGA market.

## KEY THEMES SHAPING MGAS

The current MGA market can be characterized by the following five interrelated themes.

### 1. GROWTH, GROWTH, GROWTH

Although tracking the number of MGAs and the premium volume flowing through those entities is a challenge for the industry, there is a general consensus that there are now approximately 1,000 MGAs in the US market responsible for approximately \$100B in premiums. The premium volumes have been growing at compound annual rates of over 10% for a decade, with no signs of slowing down. Despite some consolidation in the market, there are many new startup MGAs – some launched as independent ventures while others are affiliated with existing carriers, reinsurers, brokers, or even non-insurance entities. One caveat, as always, is that it is important to follow market conditions, as significant changes in the economy or the P&C cycle will influence growth opportunities.

### 2. DOUBLING DOWN ON E&S AND SPECIALTY

MGAs have historically focused on specific classes of business in non-standard markets or difficult-to-place risks. By nature, they are market makers, connecting customers and their agent/broker partners with underwriting capacity providers. The trend of the P&C market moving toward more and more specialization favors MGAs, with incumbents showing healthy growth and the aforementioned new ventures gaining traction.

### 3. INSURTECH EVOLUTION

The early days of the insurtech movement (circa 2010-2015) saw many startup MGA ventures, often founded on the thesis that a modern digital platform, great customer experience, and direct model would be a winning combination. Although that model was very successful in other industries and venture capital rushed into insurance, eventually, many discovered that more was needed for success in P&C. Those elements are still quite valuable, but for complex risks, the deep underwriting expertise and relationships with agencies/brokers to reach key markets are essential for success.

### 4. PROGRAM INNOVATION

MGAs have always been known for their ability to create innovative new programs serving the needs of specific types of businesses and their unique set of exposures. Now, as the risk landscape evolves, there is even greater demand for innovative programs, and MGAs are seizing the opportunity. MGAs are aggressively recruiting seasoned industry experts with experience in specific industry verticals to support the creation and execution of new programs.

### 5. BROADENING SCOPE

As carriers seek to enable their growth by extending into new lines, new states, and emerging risk areas, they are often turning to MGAs to accelerate their market entry. In many of these cases, the MGAs are granted delegated authority, which provides them not only with the pen but the ability to handle much of the servicing of the account as well. This may even include claims going beyond FNOL (although often via TPAs and independent adjusting firms). The carriers are eager to leverage their capacity to create additive revenue streams but may lack the expertise and resources to extend into new areas.

These themes are likely to support the continued growth and importance of MGAs in the marketplace. Through this lens, the following sections examine the current MGA environment and how the evolving insurance and technology ecosystems will underpin their growth.

## MGA INSURTECH BUSINESS MODELS

Before we further explore the current MGA environment, it is important to establish the types of MGAs present in the market, including both incumbents and new models introduced by insurtechs. Most incumbents fall into two categories: traditional and innovative. Those based on the traditional model have steadily refined their risk expertise, enhanced their tech capabilities, and often have grown through acquisition. Others have explicitly sought to transform their business through the modernization of their tech platforms, aggressive partnership strategies, and exploration of new growth options such as parametric or embedded insurance.

On the insurtech side, a decade of identifying and tracking well over 100 startup MGA entities has led us to uncover six business models that new entrants are leveraging to scale and differentiate themselves as they focus on the use of data and advanced technologies. This has helped change the service and capability expectations throughout the MGA space. It should be noted that while insurtechs are catalysts for these new approaches, many incumbents are now adopting them as well.

Below, we summarize the nature of six insurtech MGA business models. Please note that some MGAs may exhibit characteristics of more than one of these models.

- **Line/Segment-Focused:** More and more MGAs are creating programs focused on specific lines of business or segments, such as specialists in cyber, pet, flood, and workers' comp. This model is a natural way for MGAs to gain market traction and success before expanding into other areas. A few examples of line-segment-focused MGAs in the market today include Ahoy! Insurance for boats, Evolve MGA for cyber insurance, and Cake Insure for workers' comp. A breakdown of the various business lines offered by this group can be found in Figure 2 below.
- **Diversification Play:** Brokers, carriers, reinsurers, or even existing MGAs launch new MGAs to pursue growth and diversify their risk portfolios further. The MGAs established by these entities may be affiliated or non-affiliated and may or may not have delegated authority. Take, for instance, broker Holmes Murphy, which recently launched a full-service MGA practice called Innovative Program Solutions. Other examples include Fundamental Underwriters, formed by AF Group, and Convex US from the Convex Group.
- **Evolving MGA:** In recent years, a few select MGAs have obtained capacity by either acquiring an existing insurer or raising capital and becoming licensed as a full-stack carrier. Some MGAs that have transitioned into full-stack carriers in recent years include At-Bay Insurance, Openly, and Next Insurance.
- **Digital Platform:** Some MGAs offer a platform that accelerates the introduction of new products and/or new digital brands for carriers. These MGAs help conceptualize products for the digital world, including on-demand, parametric, and episodic insurance. Assurely and Slice Insurance are two examples.
- **Digital Native MGA:** Many MGAs launched during the insurtech era are simply digital natives – starting from scratch and building out their own tech stacks meant only for their operations and not to be leveraged by other entities. These companies often focus more on commoditized products, especially targeting the small commercial segment, where digital capabilities and automation enable them to be profitable in a world of thin margins. Some digital native MGAs active today are Millennial Specialty Insurance, Joyn Insurance, and Tango Specialty.
- **Embedded/Parametric:** A few MGAs are leading in innovative insurance approaches, such as embedded and parametric coverages. At ReSource Pro, we define embedded insurance as insurance purchased in conjunction with a related product or service from a different provider during the same customer experience. Commonly, MGAs offer embedded solutions through their distribution platforms that are integrated with products. Parametric insurance, which pays out predefined amounts based on event triggers, is purchased similarly to traditional coverage. Cover Genius, Parametrix, and Pattern are examples of MGAs that offer and enable these types of solutions.

Figure 1 below shows the breakdown of the MGA market today based on our analysis of the six business models above for over 120 MGA insurtechs.

Since ReSource Pro last analyzed the MGA market in 2022, we have observed some notable shifts in the business models MGAs employ across the landscape. Evolving MGAs are rising – two years ago, this group only represented 6% of the MGA market. That figure has increased to 16% this year, and we expect that more MGAs will opt to become insurance carriers in the future to have more control over the underwriting process, insure a wider range of risks, and gain a greater competitive advantage. There has also been a slight growth in the percentage of digital native MGAs, and ones focused on embedded or parametric insurance are also up-and-coming despite representing the smallest portion of the market so far.

Although it comprises the lion's share of MGAs, the line/segment-focused model now accounts for a smaller percentage of the market than it did two years ago; however, we should note that several new entrants have launched in recent years. Additionally, some MGAs that started in one or two business lines may have since expanded their reach into other risk segments. The business lines and segments represented among line/segment-focused MGAs are shown in Figure 2.

Figure 1. Market Breakdown of Insurtech MGA Models

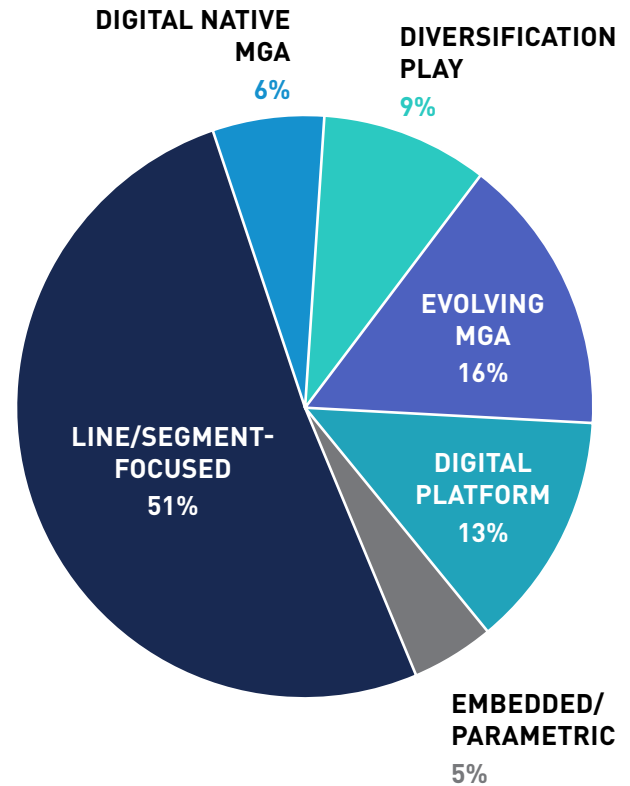
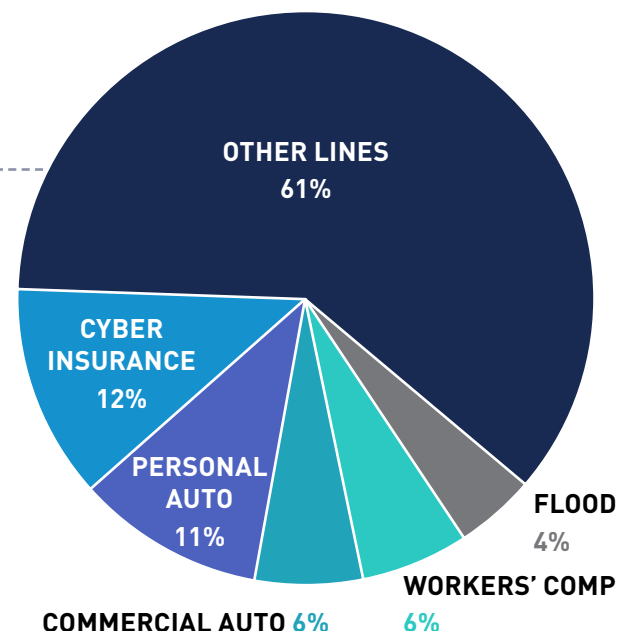


Figure 2. Breakdown of Business Lines Offered by Line/Segment-Focused MGAs

Agribusiness	Manufactured Home
Aviation	Motorcycle
Bike	Pet Insurance
Boating	Professional Liability
Cargo Insurance	Real Estate
Climate Change	Renters
Cloud Outages	Renters and Landlord
Collectibles	Rideshare
Contractor	RV Insurance
Credit Insurance	Shipowners
Crypto	Surety
Digital Assets	Tax Liability
D&O	Transportation
E&S	Travel
High-net-worth	Usage-based Insurance
Homeowners	Wearables
Lawsuit Cost	Wildfires
Lawyers	



## HOW MGAS LEAD IN MARKET DIFFERENTIATION

If you had to pinpoint MGAs top two differentiators within the insurance ecosystem, it would be their propensity for innovation and specialization. MGAs are often leaders in launching products for new lines of business and specific segments and designing insurance programs to address both new and emerging risks. For example, when cyber exposures first garnered greater awareness, MGAs pioneered programs to address these emerging exposures.

In addition to offering customized insurance solutions, MGAs' flexible and innovative approach enables them to deliver a more personalized customer experience. Historically, customers in unique niches or with higher-risk exposures were left with limited coverage options. And while this remains a challenge today, MGAs have largely stepped in to fill this gap. They are often at the forefront of understanding the exposures of specific types of customers and designing programs to address these risks. In an era of increasing specialization, their role in program business continues to expand.

Another differentiator is their relationships with independent agencies, brokers, wholesalers, and even other MGAs. In addition to providing access to a broader range of markets and insurance solutions, they provide specialized knowledge and niche expertise. This expertise is invaluable for agents, brokers, and wholesalers who work with policyholders across many industries and rely on their MGA partners to deliver personalized coverage recommendations and a cohesive customer experience.

Finally, MGAs frequently attract underwriting talent with deep experience in key industry segments and lines of business. These individuals are recruited from top specialty lines carriers or, more recently, leave their carrier roles to startup insurtech MGAs. This industry expertise and advanced technology position MGAs well for continued innovation and growth.

### USE CASE #1: AIR PARAMETRIC



AIR Parametric's Milkshare program protects dairy farmers from losses resulting from extreme heat stress. When the temperature-humidity index reaches higher than normal levels, the herd's milk production and quality can be impacted, resulting in lost revenue and higher expenses for dairy farmers.

### USE CASE #2: BOUNDLESS RIDER



Boundless Rider is an example of a line-focused and digital-first MGA. They provide motorcycle and powersports insurance to riders in AZ, IL, TX, and OH. Additionally, they incorporate telematics through their Safe Rider Program to offer premium discounts based on distance driven and driver behavior.

## THE EVOLVING MGA LANDSCAPE

While MGAs are no strangers to adapting to changing market conditions, they, too, must remain diligent in staying abreast of the evolving landscape. New market entrants, partnerships, insurance approaches, and advancing technology, are fueling significant changes throughout the industry. In the following sections, we will look closely at partnerships and tech innovation and their impact on the MGA landscape.

### PARTNERSHIPS

Increasing risk complexity, changing customer expectations, and advancing technology are fueling changes to the insurance ecosystem and longstanding partnerships. These shifts are spawning new market entrants, channel partners, and approaches to distribution, prompting changes to the MGA landscape as well. Historically, carriers would launch or partner with an MGA to expand their market reach and/or launch a new product. This approach allowed them to go to market quickly without large investments in infrastructure. And while this remains true today, the partnership landscape is expanding. An increasing number of retail agencies and non-insurance providers are choosing to pursue the MGA model. For example, Bunker, a digital-first retail broker founded in 2015, launched an MGA offering specialized work comp programs.

Another recent development is MGAs choosing to launch their own insurance companies or acquire capacity. For example, Coalition, a cyber insurance MGA, launched a full-stack carrier in 2023, whereas Hippo chose to acquire an insurance company (Spinnaker). This approach allows MGAs to own underwriting, product innovation, and more. But these potential advantages don't come without risk. Most notably, the additional risk exposures from poor underwriting or loss performance. Furthermore, MGAs opting to launch insurance companies could potentially disrupt longstanding partnerships. For one, they will increase competition amongst carriers (which could ultimately be good for brokers and policyholders), but they could also become direct competitors of agents/brokers by writing coverage directly.

Lastly, the quickly expanding MGA ecosystem is also fueling greater competition and an increase in M&A activity. As a result, both incumbent and newly launched MGAs must be clear on their value proposition and partnership strategies. Fortunately for MGAs, partnership opportunities remain robust. According to a ReSource Pro survey, two-thirds of carriers plan to expand their current MGA relationships or add MGAs as a new channel. Growth potential is particularly high for MGAs focused on complex and specialty risks within the mid-market and large commercial segments. Furthermore, their growth opportunities are not limited to carriers. The move toward specialization and the desire to holistically serve customer needs is fueling increasing partnership activity spanning other MGAs, wholesalers, program administrators, and even companies like Amazon outside the insurance ecosystem. The industry will undoubtedly see a flurry of MGA partnerships within and beyond the insurance ecosystem.

### TECH INNOVATION

While MGAs' inclination toward innovation, specialization, and partnerships is fueling growth, we cannot overlook the impact of advancing technology. Given the role MGAs play in the insurance ecosystem, they may have the most varied tech stack of all participants. Not only do they have to manage their internal operations, but MGAs also support interactions with distribution partners, carriers, and policyholders. And each of these stakeholders has their own needs and expectations. Some MGAs have invested in complex tech stacks, and others still run on custom-built solutions such as rating spreadsheets. What unites most MGAs, however, is their strong analytics capabilities. The ability to accurately assess risk, analyze exposures, and underwrite the coverage is vital to MGAs' success, so having strong predictive models and business intelligence solutions is a necessity. Recent ReSource Pro research clearly shows that MGAs are willing to invest. This is especially true for solutions that improve the customer experience



of agents/brokers and policyholders, increase efficiencies, and/or support growth. Additionally, we have observed that access to technology and data has been democratizing in recent years, which in turn is allowing all types of distributors (including MGAs) to implement more sophisticated tech solutions for which they once relied on carriers. Greater autonomy among distributors is likely to drive more innovation, new solutions, and a more holistic customer experience.

Today, both incumbents and insurtechs provide a wide array of technological solutions for MGAs, ranging from foundational core systems to emerging cutting-edge solutions. But, it's important to remember the depth of capabilities that are needed. MGAs' operations span sales, underwriting, policy administration, customer relationship management, and claims. And every MGA operates differently, resulting in varying technology configurations. That said, below are six key technologies that are shaping MGAs both today and in the future.

- **Core Systems:** Historically, many MGAs either did not have vendor solutions for policy administration or billing or adopted core systems designed for carriers. Additionally, MGAs took varied approaches to meet their rating needs, including using the rating system in their core system, purchasing a standalone solution, or building a custom solution. In recent years, however, incumbent tech companies and insurtechs have been designing purpose-built solutions for MGAs. ReSource Pro's analysis of core system purchases in 2023 found that despite steady demand for carrier-designed systems, solutions tailored for and sold only to MGAs comprise an increasing number of deals.
- **AMS Evolution:** Whereas some MGAs have gone the core system route, others opted to purchase an AMS solution and combine it with a custom-built rating solution or supplementary underwriting solution. Industry tech veterans such as Applied and Vertafore and newer market entrants such as Veruna and Agent Sync have targeted solutions for the MGA segment. These solutions are more advanced than ever, containing enhanced capabilities and robust integration opportunities.
- **CRM:** Given that MGAs operate at the apex of carriers, agents/brokers, and policyholders, managing these relationships is both critical and complex. Some MGAs opt for a more informal approach, while others turn to formal software solutions, most notably CRM solutions. That said, these solutions are often used to manage agent/broker relationships as opposed to relationships with insureds.
- **Data/Analytics/AI:** Access to robust data, advanced analytics, and automation are critical to MGAs' decisioning, portfolio management, and operational capabilities. Business intelligence dimensions such as dashboards, customer and risk analysis, submission triaging, and more benefit from advancements in AI and machine learning. MGAs can now increase their speed-to-market for new products, underwrite risks more quickly, and operate more efficiently. However, these solutions are not one-size-fits-all. Rather, executives must hone in on solutions specific to their niche and market segment.
- **Underwriting Solutions:** Like other tech stack components, MGAs' approach to underwriting largely varies. Due to the previous lack of MGA solutions, some designed complex spreadsheets that essentially run their business. These spreadsheets conduct customer analysis, exposure management, and other key underwriting workflows. Other MGAs have opted to purchase sophisticated underwriting solutions, many of which integrate robust data and analytics capabilities to support underwriting decisioning. Regardless of their chosen approach, ensuring they have access to the business intelligence they need to successfully underwrite risk is of utmost importance.
- **Agent Portals:** MGAs' relationship with their agent/broker partners spans the entire insurance value chain from sales to policy servicing. And as we've seen with policyholders, agents/brokers increasingly want access to on-demand digital solutions. As a result, many MGAs are opting to invest in agent portals. The extent of capabilities varies but commonly supports sales functions such as submissions and baseline servicing capabilities. Investment in MGA/agent connectivity solutions will depend significantly on the MGA model, with digital native MGAs having the most robust platforms.

While the impact of advancing technology on MGA capabilities and solutions will undoubtedly be robust, it's important to recognize that technology will not negate the critical need for a human in the loop. The goal is not full automation or straight-through processing but rather finding the right combination of automating workflows and augmenting workloads so employees can focus on high-value tasks and decisions.

## WHAT DOES THE FUTURE HOLD?

The path to success in the insurance ecosystem is evolving. In some ways, it is getting easier due to advancing technology and expanding partnership opportunities, but in other ways, it is becoming more difficult. Notably, finding success as a generalist is becoming increasingly challenging. For carriers, MGAs, and agency/broker entities, specialization is key. And while MGAs already have a model built around specialization, they cannot remain complacent. Instead, as MGA executives look to the future, they should consider the following:

- **SHIFT TOWARD MORE COMPLEX RISK WILL CONTINUE**

Whether on the personal or commercial lines side, automation and AI will lead to higher and higher levels of straight-through processing for commodity lines, particularly in personal and small commercial segments.

- **MGA GROWTH IS ALL BUT GUARANTEED**

Will the size of the MGA market double again in the next ten years as it did in the last? Possibly. However, numerous external factors are at play, including the economy, tech advancement, geopolitical environment, and more. That said, the growth opportunities are vast for those looking to specialize and innovate.

- **NEW PRODUCTS AND APPROACHES WILL EMERGE**

Advancing technology is also fueling the ability of MGAs to address risks at polar ends of the risk spectrum, ranging from micro-risks to highly complex. And as MGAs' ability to underwrite risk exposures evolves, so will the insurance solutions they offer. Furthermore, new approaches such as parametric and embedded insurance (and even a combination of the two) will continue to gain traction, likely spearheaded by MGAs. And lastly, these new products and approaches will spawn new partnerships, most notably outside the traditional insurance ecosystem.

- **MGAS WILL LEAD THE CHARGE INTO THE REAL-TIME WORLD**

Designing programs that leverage real-time data from vehicles, buildings, people, and other sources will also result in new and innovative insurance programs. By capitalizing on real-time technology and emerging approaches such as embedded, parametric, and usage-based coverage, insurance solutions will become more personalized and responsive to customer needs.

Lastly, numerous new and emerging industries will need the specialization and expertise that MGAs provide. Climate tech, renewable energy, transportation/mobility, cyber, and connected devices/IoT are changing the way we live and work. And these industries will undoubtedly need an insurance partner to help them both manage and protect their risks. MGAs will most certainly rise to the occasion.

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