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## Quarterly Review



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By Ingrid Sapona | 20-minute read

In this issue we cover choices and paths professionals might consider when setting out to craft a fulfilling career in the industry. In our first article, we look at broker specialization. We talk to three brokers about how they ended up specializing and their advice for those who have an interest in specializing. In the second article, we take a closer look at managing general agents (MGAs), and explore two distinct MGA business models.

### Broker specialization

“When a brokerage is interested in buying your specialty brokerage, what you have to ask yourself is whether the buyer is interested in your expertise, or if they just want your book of business.”

—Andrew Robertson, SVP Gallagher Skipper’s Plan

In recent years there’s been a fair bit of press about broker specialization. In a 2018 survey by Canadian Underwriter of more than 800 p&c brokers<sup>2</sup> across Canada, 88% of respondents agreed with this statement: “Brokers need to become more specialized to withstand changing technology and sales models.” (This survey has since been repeated<sup>3</sup>; 87% and 84% of brokers continue to agree in 2019 and 2020 respectively, the latter in the midst of a global pandemic.)

Attitudes toward broker specialization have not always been positive, however. When asked to comment on the survey results, Michael Loeters, past president of the Toronto Insurance Council, said: “Historically, there was a hesitancy to stake your claim on a single area because you never wanted to exclude yourself from other opportunities. But as the market has become more sophisticated, clients expect a broker to walk into their office with an understanding of their unique risks to be able to architect an insurance program. Specializing is the way to do that.”

For those who find it daunting to keep up with shifting risks applicable to a spectrum of industries, embracing specialization means “brokers will no longer have to learn a small amount about a lot of industries.”<sup>4</sup>

<sup>1</sup> <https://www.insuranceinstitute.ca/en/cipsociety/information-services/quarterly-review-2021-04>

<sup>2</sup> <https://www.canadianunderwriter.ca/insurance/power-broker-specialization-1004138186/>

<sup>3</sup> <https://www.canadianunderwriter.ca/insurance/nbs-2020-specialization-and-its-limits-1004199500/>

<sup>4</sup> <https://www.insurancejournal.com/news/national/2020/01/23/556181.htm>

By digging deeper into one sector and becoming an expert, you're better able to give knowledgeable advice to your customers. And, from a marketing perspective, specialization is a way of differentiating yourself from other brokers.

In Canada you'll find p&c brokers who specialize in areas on the personal lines side and on the commercial lines side. As well, you'll find small brokerages that specialize in one niche sector and large brokerages with specialty departments.

### **Specialty: Recreational boating**

For years, Robertson & Robertson was the go-to brokerage for recreational boaters in the Toronto area. Andrew Robertson, SVP Gallagher Skipper's Plan, ran the family brokerage that ultimately became a specialty department of Gallagher in 2013. Robertson, an avid sailor, joined the family business in 1993 and he proudly admits he loves being described as a specialist, saying: "I've been in this business for 28 years and I've never placed anything other than pleasure craft."

Robertson's grandfather was a broker in the 1940s who mainly placed transportation cover related to farming. His hobby was boats, however, and in his driveway, he built himself a wooden 24-foot pocket cruiser based on a Chris-Craft design. Before launching it, he figured he should insure it.

"He quickly realized he couldn't get adequate coverage for it," says Robertson. "Back then about the best he could find was as a rider on a home owner's policy. So, he created what has become known as our Skippers Plan. His hobby really became his passion and he immersed himself in the boating world." After Robertson's father, also an avid power boater, joined the brokerage, it became the only brokerage in Ontario solely focused on pleasure craft.

After his father passed away, Robertson wanted to take the business to the next level, which meant taking it national. To accomplish this, Robertson & Roberson was acquired by CG&B, a brokerage that had nation-wide reach. Then, in 2013 Gallagher was interested in having a pleasure craft specialization and they approached the firm. CG&B was then purchased by Gallagher in 2014. "When a brokerage is interested in buying your specialty brokerage, what you have to ask yourself is whether the buyer is interested in your expertise, or if they just want your book of business," Robertson says. "It was important to me that they wanted to continue running it and to continue serving our clients," he says.

One of the big pluses of joining Gallagher, a company with international reach, is that Robertson is even better able to serve his clients. "There's collaboration between Gallagher offices around the world. So, for example, if I have a client who's buying a boat and taking delivery in Europe, there used to be no way I could help them. But Gallagher has global reach, so now I can help them," he says.

### **Specialty: Transportation**

Joe Palmer, SVP Transportation at Gallagher, has always had a commercial lines focus. "Since I started in the business, I've always referred to myself as a specialist in long haul truck insurance," he says. Like Robertson, his first exposure to the insurance industry and that particular specialty came through his father and grandfather. "My grandfather was involved in

the trucking business hauling potatoes and French fries for McCain. In 1976 my father started his brokerage and ended up specializing in placing insurance in the trucking sector because it was a business he knew and understood,” Palmer says. “It was his knowledge of the trucking business that really helped him grow his business.”

“My father was my mentor, really. I saw how much he knew about that sector and how he dealt with customers and how he helped them, and that appealed to me,” he says. When he was old enough, he worked summers for his father, doing all sorts of things at the brokerage. “When I realized that I really enjoyed sales, that’s when it became clear that I would enjoy the insurance business,” he says.

By the time Palmer joined the New Brunswick-based family business in 2003, about 85% of the firm’s business was in transportation. In 2015 they sold all their personal lines business to devote all their time to transportation. Palmer was looking for ways to raise the business further and to help their customers more, so he bought a safety and compliance business. “It was unique at the time because most brokers didn’t try to help their clients in that way. If the client had safety or compliance issues, maybe they’d get help from the insurer or from some other consultant. We decided to offer that service because we thought it would be a real value-add,” he says.

In 2018 Gallagher was interested in developing a transportation specialty so they approached Palmer. The decision about whether to join Gallagher took some time, but one he’s glad he made. “I had grown the business to a point and I realize to get access to more markets – and to serve my customers better – I realized it would be advantageous to be with a bigger organization,” he says. “But, the best thing about being a specialty line within a larger firm is that now I’m able to focus more on what I enjoy – serving clients – rather than worrying about all the day-to-day things that you do when you’re running your own business.” At Gallagher he still has responsibility for a book of business in Atlantic Canada, along with being the national practice leader for transportation.

#### Specialty: Wineries

David Harder, CIP, CAIB, Partner at Hope & Harder Insurance Brokers Inc. in the Niagara region, describes himself as a small-town Ontario insurance broker. When you ask him whether he specializes, he hesitates. “Well, it’s very difficult to specialize in anything when you’re a small-town broker.” But, a few years ago when I was writing a trends paper on insuring wineries<sup>5</sup>, more than a few Ontario wineries highly recommended Harder, saying he knows more about it than most.

When pressed, Harder reluctantly admits to being a specialist on wineries but he quickly adds, “We insure about 350 to 400 farms in the area and we do a lot of the wineries – but we have to do other things too to make the numbers add up. If we tried to serve just farms and wineries, we’d go bankrupt,” he says. “By comparison to other sectors that some brokers specialize in – like garages or car dealerships – there are relatively few wineries and the vast majority of them are small with premiums in the \$2,000 to \$3,000 range.”

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<sup>5</sup> <https://www.insuranceinstitute.ca/en/cipsociety/information-services/advantage-monthly/0618-insuring-wineries>

Harder's father started a brokerage in 1954 in Vineland, Ontario, an agricultural community in the heart of the Niagara peninsula. Vineland is especially well known for growing tender fruit and grapes. Given the location, serving the farm community was a natural choice and the brokerage thrived. By the time he was old enough to think about how he wanted to make a living, Harder knew a bit about the insurance business and – like Robertson and Palmer – he realized the benefits of joining the family business.

In the mid-1970s a few folks in the Niagara region started planting vinifera grapes varieties (the European varieties best known for making wine). Inniskillin Wines was the first winery opened in Niagara-on-the-Lake and the rest, as they say, is history. (The Niagara Peninsula appellation now has over 90 wineries.) As it happens, Inniskillin was the first winery he insured. "My father insured a nursery and he wanted me to take the renewal to the client. Before I went over there, my father mentioned that he heard the client was planning to open a winery and he suggested I ask them about it to see if we can quote on it. Turns out they had already started the winery and it was insured by another broker. When it was up for renewal though, I insured it," he says. "I looked after the winery till it was sold and the family has been my client ever since."

When asked why he thinks so many wineries have ended up as clients, Harder explains, "I think it's because I understand both the farming aspects and the business aspects of what they do. And I know what coverages they need and we have the markets that provide the needed coverages. I think that's what's built our reputation and why folks in the industry recommend us," he says. Harder says he gets most of his winery clients by referral.

### **Choosing a specialty**

As with any career or business choice, when choosing what sector to specialize in, it's important to consider a number of factors. In the case of all three of these brokers, it's easy to think their primary career choice was more about whether to enter the family business than to think about whether to specialize and in what area. While their exposure to both the insurance industry and their areas of specialization through their family's business was advantageous, their success in growing their firms is a function of them loving the areas they specialize in.

"If you're looking to get into a specialty, you really should have a passion for it and you shouldn't just approach it from the insurance perspective," says Robertson. "You should look at it as a way of serving the community. You should serve on boards of associations in that area and look for ways of making that industry/area better for all. And by being active in that community, you'll learn about the business and you'll learn about opportunities. Be pro-active and try to get the big picture – not just the insurance aspects."

Though Robertson has worked on the personal lines side his whole career, he admits that "If I was starting my career again, I'd look at the world a bit differently. I'd choose a specialty that's on the commercial lines side because I think there are more career opportunities there," he says. Palmer echoes Robertson's sentiment. "In terms of advising people who are thinking about choosing a specialty, I think there are more opportunities in commercial lines," adding, "I'd also suggest you consider the type of clients you'd have and whether there's enough business."

Harder readily admits he didn't set out to become a winery specialist. As his clients' farming and agri-businesses evolved, Harder realized their needs changed and he figured out how best to serve them. "If anything, you could almost say our firm didn't have a choice. Our clients who were starting wineries – or buying farms to start wineries – needed insurance. But it was definitely a happy accident," he says.

It didn't hurt that he had an interest in wine. "I guess I could credit my interest in wine – in part – to my younger brother. He went off to Germany and studied winemaking. When he eventually came back to Niagara to work in the industry, he got me away from beer and more into wine," Harder says. Since he lives and works in wine country, he can easily attend wine industry events and there are lots of opportunities to learn and to help support his clients. "We try to support our clients so I try to attend winemaker dinners and that kind of thing – to be there for them. But, to be honest, I don't really view that as work – I enjoy it! The other thing that I have to say is that for the most part, the folks in the industry are really nice and very loyal. I feel really lucky," he says.

### **Insurance vs. other experience**

While Palmer and Robertson learned a lot about their specialty areas through their family businesses, which isn't something everyone can do, it's interesting to hear what background and experience they look for when hiring people for their team. "I tend to put more of an emphasis on experience in the transport sector, like someone who has worked in customer service a trucking company. We can always train them to be insurance professionals, but it's a real plus if they know the trucking business," says Palmer.

Robertson looks for someone who "understands the boating culture – things like the different concerns of boating on the east coast versus on the Great Lakes. It's easier for me to teach people insurance aspects than to teach them about the boating world," he says. Though he couldn't site exact figures, the folks he's hired with a boating background have stayed with him quite long, while younger brokers he's hired who had no particular expertise have moved on to other opportunities, especially on the commercial lines side.

### **The down-side of specializing?**

The down side of specializing in pleasure craft, according to Robertson, is that his business success is tied to the success of another industry. "My boat thrives when the boating industry thrives. So, 2020 is a perfect example. The boating business thrived during COVID-19 because people had more disposable income because they didn't go on vacations and what have you. So, when marinas re-opened in late spring, lots of people decided to buy boats! But when some unforeseen event happens that impacts boating – like the 2019 tariff on aluminum – my business was down," he said. "When you're very specialized, you have to deal with market forces. Since most boats are built overseas – whether in the U.S. or Europe – the exchange rate also has a big impact on our business."

### **The "hard market" and its impact on specialty brokers**

Though it's risky to generalize about the impact a hard market might have on specialties, Palmer admits that the current hard market has helped his business. "It's helped us in a couple ways. Because we're specialized, we have relationships with all the major insurers and so we're more

likely to find solutions than a lot of other brokers. And of course, the increased premium is nice, but that won't go on forever," he says. "But the biggest benefit of the hard market is we have more opportunities to help companies that run into problems with their normal insurance provider. Of course, I should also mention that a year like 2020 – the busiest year I've had since I started in the business – comes with a lot of stress. Our clients are seeing rate increase and that means we end up in a lot of difficult conversations. But it's just the way it is," he says.

## **Managing General Agents**

"A specialty broker may be able to put together a syndicate to cover a particular risk, but the difference is the MGA need not inform each insurer of the structure, whereas a broker would have to."

— Mark Woodall, President & CEO of Special Risk Insurance Managers

Managing General Agents (MGAs) are an interesting player in the insurance world in that they are neither brokers nor insurers. Mark Woodall, President & CEO of Special Risk Insurance Managers describes them as quasi-insurance companies. "We're operating with underwriting authority from insurance companies. Our value proposition to the insurance company is that we have the expertise to underwrite and do the risk management, so let us do it," explains Woodall.

A delegated authority relationship is formed when an insurer permits another party to act on their behalf, either in an underwriting or claims handling capacity.

Another way in which MGAs are unique is that they are largely unregulated because they're neither brokers nor are they insurers.<sup>6</sup> The CEO of Ontario's Financial Services Regulatory Authority (FSRA) has pointed out that it does not have authority to license MGAs.<sup>7</sup> Some provinces, however, do oversee MGA activities. In Alberta, for example, MGAs must hold a certificate of authority from the Alberta Insurance Council.<sup>8</sup>

## **MGAs with a specialty focus**

Some MGAs focus strictly in specialty areas – markets insurers may have written directly at one point but that disappeared when insurance companies merged or were bought up. "For insurers, MGAs are a distribution channel. If there are 900 insurance brokers in Canada and 400 of those brokers are signed on with a large insurer, how does that insurer tap into the other 500? The insurer can distribute product through MGAs without adding fixed costs. Similarly, if an insurer wants to get into a particular specialty, they can hire underwriters and train them in that area, or they can sign up with an MGA that has that specialty. For example, there probably are only about 10 underwriters in Canada with expertise in sports – three of them work at SRIMs and we've been doing that for 20 years. Entering into an MGA with SRIM would only cost the insurer an extra commission," explains Woodall.

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<sup>6</sup> <https://www.canadianunderwriter.ca/insurance/what-carrier-ceos-said-when-asked-if-mgas-should-be-regulated-1004170325/>

<sup>7</sup> <https://www.canadianunderwriter.ca/insurance/what-carrier-ceos-said-when-asked-if-mgas-should-be-regulated-1004170325/>

<sup>8</sup> <https://www.abcouncil.ab.ca/faqs/certification-licensing-questions/>

Rowan Saunders, president and CEO of Economical Insurance, shared this sentiment at the 2019 Insurance Brokers Association of Ontario (IBAO) Conference in Toronto.<sup>9</sup> He sees “two different reasons for why P&C industry players would want to use MGAs. One is to tap in on expertise the retail brokerage may not have itself.” Also, he added, “I think that if you don’t have a distribution channel, [using an MGA] is actually a great way to get your distribution. But certainly, if you are a Top 10 player, you’ve [already] got a big distribution channel. Mostly, brokers end up doing that [distribution] for us.”

It’s useful to keep in mind the difference between an MGA and a broker who may have expertise in a specialized area: the specialty broker will shop the risk with various insurance companies while the MGA has the expertise and the authority to bind the risk.

When an MGA represents more than one insurer, they can combine the authority they have with those insurers to cover a risk that may exceed their authority with an individual insurer. “A specialty broker may be able to put together a syndicate to cover a particular risk, but the difference is the MGA need not inform each insurer of the structure, whereas a broker would have to,” says Woodall.

Syndicates are used in the insurance industry to spread insurance risk among several companies or entities.

As for how one might find an MGA that specializes in a particular area, Woodall says there are “market finder lists” that brokers can consult. Woodall adds a note of caution, however, as there’s no way to verify whether an MGA is truly a specialist in a given area.

It’s difficult to find information on the percentage of insurance placed through MGAs. Heather Masterson, president and CEO of Travelers Canada was quoted at a conference in October 2019 as estimating that between 10 and 15% of Canada’s insurance business in through MGAs.<sup>10</sup> Woodall doesn’t know what percentage of insurance is placed through MGAs, but he thinks it is growing. “Well, let’s put it this way: over the 25 years we’ve been in business our business has grown from zero in year one to \$130 million last year. I’d say there are 10 MGAs that write over \$100 million in premium per year – and total premiums in Canada are over a couple billion – so that gives you some idea,” he says

Woodall thinks MGAs are particularly relevant in a hard market and will be going forward because the number of insurance companies are shrinking. “The hard market is really a pricing issue. Too many MGAs and small insurers tried to write business inexpensively and now it’s catching up to them. So now we’re cleaning up a mess that was created over the past 5 years. There is some separation occurring in the insurance market right now, and that’s created exceptional opportunity for us,” he says. “But MGAs that lack professionalism and skills are getting reviewed by insurers and some are losing their business,” he adds.

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<sup>9</sup> <https://www.canadianunderwriter.ca/insurance/what-carrier-ceos-said-when-asked-if-mgas-should-be-regulated-1004170325/>

<sup>10</sup> <https://www.canadianunderwriter.ca/insurance/what-carrier-ceos-said-when-asked-if-mgas-should-be-regulated-1004170325/>

## **Insurtech MGAs**

While many MGAs focus on specialty areas, MGAs that focus on insurtech solutions for brokers are also emerging. “A lot of innovation comes from the MGA space, says Marco Andolfatto, Chief Underwriting Officer, APOLLO Insurance Solutions, Ltd. APOLLO provides independent brokers insurance products by way of a versatile software platform. It focuses on micro to small personal and commercial lines – products that can be cumbersome to deliver on a cost-effective basis.

“Our value proposition to our broker partners is that we can provide them the means to get quotes and bind policies for their clients in a matter of minutes,” says Andolfatto. “We deliver insurance products through an online insurance marketplace, which means brokers can access our broker portal – APOLLO Exchange – to instantly transact insurance online, or even just to get a quote. Our process is efficient, consistent, and fast because we do our underwriting through algorithms. When you think about it, underwriting is a series of logic-based decisions on risk selection, rating, and cover selection. All these things can be programmed into an algorithm to create an automated process – that’s what we’ve done,” says Andolfatto.

Another product APOLLO provides is Launchpad, which allows brokers to sell directly from their site. “We take our suite of products and put them on the broker’s website with the broker’s branding. This makes it seamless for brokers – their clients can purchase our insurance products through their site. In essence, our Launchpad is a turnkey Shopify-like solution for our broker partners. Partnering with APOLLO means the broker’s website can begin to quote and bind insurance products with minimal investment,” says Andolfatto.

APOLLO’s key value proposition to its insurer partners relates to the collection of meaningful data. “We collect all the underwriting data from every applicant through our portal,” says Andolfatto. “So, say, for example, the underwriting algorithm rejects a commercial application. We can tell exactly what response in the application triggered the rejection. Let’s say we find that 13% of commercial applications are rejected based on a positive answer to the question: ‘Do you have sales in the U.S.?’ Once we know that, we can then build additional questions into the application to determine details about the nature of the organization’s U.S. sales, as some of them may be of a nature or quantity that would meet our underwriting appetite. Once this new underwriting criteria is established, we can measure the loss performance of those accounts that qualify under the new criteria. In other words, APOLLO can provide our insurance partners with a deeper understanding of the risks that are bound, declined, and quoted that they wouldn’t get through our peers that are more paper-based and are transacting through traditional processes. And, through the data we can also learn more precisely about other products that customers may value. For example, if we collect underwriting data that indicates the majority of our tenants insurance clients have pets, we can partner with an insurer to develop a pet insurance product to meet that demand,” he says.