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UMAs – an essential global insurance model

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Underwriting Management Agencies (UMAs) have positively influenced growth and innovation in the insurance industry globally for a number of decades. UMAs are not unique to South Africa and while they may have different names globally, at the core the concept remains the same.

Looking overseas

Some view the Lloyd's syndicates as being essentially 'super' UMAs. In North America and the UK, UMAs have been in existence since the late 19th century and are commonly referred to as Managing General Agencies, or MGAs.

In the United States, MGAs subscribe to the American Association of Managing General Agents, or the AAMGA, and in the UK, MGAs subscribe to the Managing General Agents Association or the MGAA. These two associations, respectively, would be the equivalent of the South African Underwriting Managers Association (SAUMA) in those markets. The MGA model generally works well in Anglophone countries where the model is well known and the local legislation is favourable and conducive, especially in the non-life market, although the use of MGAs in the life market is also common in markets like Canada.

Here at home

Locally, UMAs have been in existence since the late 1980s and have played a vital role in the growth, innovation and specialisation of the insurance industry. The success of the UMA model has seen it being exported to other parts of the world by some global insurance groups, with adaptations for specific markets.

In the South African market, Lireas has embraced the UMA concept and has actively participated in this business model for over two decades – in fact, August 2013 sees our 25th anniversary of UMA support. During this time, Lireas has partnered successfully with various entrepreneurs and insurance specialists. The company is currently invested in agencies that underwrite on behalf of insurance companies such as Compass, Guardrisk, Hollard, Mutual & Federal and Lloyd's.

Lireas has been involved with 41 UMAs over the last 25 years and is currently invested in 15 agencies.

Comparing notes: South Africa versus overseas

Some interesting comparisons between South African UMAs and

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Market	Aproximate no of UMAs/MGAs	Volume of Gross Written Premium via UMAs/MGAs (Rand)	Interaction with policyholders
USA	500	R240 billion	Brokers and direct
UK	200	R70 billion	Brokers
Australia	150	R24 billion	Brokers and direct
South Africa	300	R14 billion	Brokers

agencies in the UK, the US and Australia are summarised in the table on the following page:

The mechanics of the agency model in South Africa are most similar to those of the UK and Canada when compared to other markets. In fact, parallels are often drawn between the South African insurance industry and that of the UK, especially around general market mechanics, the regulatory environment and the structure of industry bodies and associations. In the Canadian market, the MGA model is generally regarded as being a cheaper model that has brought in significant cost savings for large insurance companies.

> "South Africa is facing similar regulatory and legislative challenges to the UK."

Challenges and opportunities

South Africa is facing similar regulatory and legislative challenges to the UK. Sentiments expressed by the MGAA on its website indicate that pertinent industry players are concerned that there is confusion in the UK market about what an MGA is and the functions that it should undertake. In fact, one of the principal objectives of the MGAA is to ensure that regulators form a better understanding of the nature and role of MGAs, as currently they are treated as wholesale brokers. This is a very similar situation to the one we find in the South African market and which is perhaps exacerbated by the recent binder regulations.

The MGAA website suggests that in the UK market, regulation currently forces the broker or insurer to duplicate the activities which should rightly sit within the MGA, and that this duplication has led to greater costs and bureaucracy in an industry that already has a high cost base. This situation, says the MGAA, is not beneficial to policyholders. The website further reveals that the MGAA intends to bring all these matters into focus, as part of its contribution to treating customers fairly.

In an online article published in one of the UK's insurance industry news platforms in April 2012, it was reported that Lloyd's is experiencing and anticipating a renewed surge of MGAs due to Solvency II and mergers and acquisition activity, and that a number of Lloyd's insurers are teaming up with MGAs to access new lines of business. It was further reported that MGAs are seen as a popular vehicle to bolster the top line at very little cost, as MGAs offer scale and diversification in a Solvency II environment.

As with the South African market, businesses try to grow by writing new lines of business and insurers in the UK are doing this via arrangements with MGAs rather than hiring new underwriting teams. The fit between a Lloyd's player and an MGA is seen as one that is natural, given their common DNA of specialist product orientation.

Supporting MGAs and UMAs

Lireas' sister company, Inter Hannover (www.inter-hannover.com), which is headquartered in the UK, also participates in the MGA space in key markets across Europe, North America and Australia. Inter Hannover is an AA- (S&P) rated company that focuses on developing its business in those territories which provide the most mutually beneficial opportunities to them and their partners and continuously seek new opportunities and markets.

Inter Hannover supports agencies that focus on tightly defined insurance niche business comprising smaller customer groups, which have special product needs including Aviation, Marine, Liability, Professional Indemnity, Title, Travel Bonds, Energy, Personal Accident, Specie, Jewellers Block and Fine Art.

As with Lireas in South Africa, Inter Hannover thrives on its long history of agency management, long-term partnership ethos, worldwide expertise, access to quality capacity, capital and security.

UMAs and MGAs have been a key driver in the development of the global insurance industry, and will certainly continue to support the insurance industry's coverage in the future. In this way, UMAs and MGAs enhance insurance coverage through the availability of accessible products for the consumers' risk exposures, as well as supporting growth and innovation.

Lireas has invested significant capital and resources in developing these strategic partnerships between entrepreneurs, the primary market and reinsurers. In addition to facilitating and cultivating entrepreneurial innovation in the insurance industry, this has contributed significantly to insurance product innovation, premium growth and sustainability and, notably, employment creation in the industry. As a group in the South African insurance market, Lireas is proud to be actively involved in this dynamic business model.