

Uniting for Survival

Managing the margin

BY MARK NOBLE

To turn a profit from declining margins, MGAs realize they need scale. In the past, the most recognized solution to declining revenue was acquisition but at this year's MGA Symposium, it's another A-word that has people talking – alliance.

According to a survey, conducted on behalf of ADVISOR Group, seven out of 10 MGAs still cite acquisition as their most likely avenue for growth. But a few are learning that bigger is not always better. Part of the appeal of MGAs is the perception that they offer personalized service and advocacy not readily available from the large dealers – and certainly not available directly from carriers.

Terri DiFlorio, the outgoing president of the Canadian Association of Independent Life Brokerage Agencies (CAILBA)

and president of HUB Financial, Canada's largest MGA, and Caron Czorny, the incoming president of CAILBA, offered two back-office solutions that can be an alternative to outright acquisition: offer back-office capabilities to other MGAs.

"There is a lot of pressure on the margins that we have. The cost of technology and compliance [is not helping]," DiFlorio says. "There is consensus we will have compliance in all of our operations soon."

DiFlorio says that while there are numerous technology solutions out there, independently operating them as a smaller MGA is not cost-effective, and it's becoming very difficult to find and retain individuals with strong back-office and compliance skills.

DiFlorio acknowledges that every firm is specifically worried

about how to retain good advisors, but she concedes that a new pressure will be how to retain good employees, in general.

"We've got a couple of situations right now where we simply do the back-office processes for somebody," explains DiFlorio. "They retain their status as a national account or an MGA. We don't take the insurance contracts on; they have it themselves. For the process of getting a case through or the in-force service that goes on, rather than offering that on an override share basis, we do that on a fee-base."

The cost savings can be drastic, especially for niche-market MGAs who want to allocate their resources in certain areas. One example, says DiFlorio, is an MGA that once paid six employees to do the back-office work; now for the cost of less than one of their salaries this MGA uses her company's back-office expertise.

Outsourcing to a large competitor is not the only option. Czorny, who is executive vice-president and chief operations officer of PEAK

Insurance Services, explained how her firm has been able to create an alliance with two other MGAs to create one single back-office system.

Quebec-based PEAK was one of more than 30 MGAs that were cut adrift when Manulife chose to wind down Equinox Financial Services in 2006. That left 35 offices wondering how to manage the costs of back office production, says Czorny. Initially, 19 MGAs from across the country got together to discuss pooling their resources to create a similar platform, but it went nowhere, explains Czorny. Then a Quebec initiative took hold, with 10 Equinox centres meeting; in the end, there were three firms who were seriously interested in talking about how [to] work together."

The three firms, PEAK, Equinox des Laurentides and HBO, created AgenZ. While the three MGAs effectively remain competitors, they work together with the same back office, and they all have the same insurance contracts, which are negotiated by AgenZ.

Giving up the insurance contracts to the AgenZ group was not an easy decision, explains Czorny. But, growth soon took over. "We now have seven companies that hold the MGA contracts with AgenZ Group and are doing very well. We cannot take on any more, though, because we want to make sure we can meet the [carrier] production requirements."

In addition to the contracts, the back office shares a staff, and have standardized E&O coverage. Czorny says the alliance has allowed them also to leverage expertise from one another in certain areas, such as underwriting.

"At PEAK, we thought we were good at looking at cases that were declined or rated. Really, we weren't that good compared to the director of operations at one of the other MGAs. She has dug her teeth into those cases and has more time to do that because she has a bigger team."

The three firms do compete for clients, and, because they have different levels of compensation, they also compete for advisors. **AER**