# How to Succeed in Program Business
**by Lois Massa**

Whether you are an experienced program administrator or perhaps newly venturing into program business, there are many critical success factors to consider. After learning the fundamentals for developing a program, what can you do to improve your chances of succeeding? Specifically, today's challenge for the Program Administrator is how to remain vital and profitable in a volatile marketplace over the long-term. This article will address several important principles to consider.

I am suggesting that successful Program Administrators possess the organizational discipline and commitment to:

1. **Create a compelling and realistic business plan.**
   The key words here are "compelling" and "realistic." Successful program administrators develop a business plan specific for each program they launch. They understand that before investing significant resources to develop a new program, there needs to be a strong, empirically based reason for moving forward. The plan consists of (a) identifying or creating a need (filling a void), (b) assessing the competition, (c) evaluating the market size (opportunity), (d) developing a product (solution) and (e) developing a financial pro forma.

   This process entails asking questions, such as, what is driving the perceived need for a new program? Have we assessed competitor strengths and weaknesses? How will we differentiate our product? Does our organization have the infrastructure and expertise needed, and if not, are we willing to hire new talent? Will our current agents support the new program? Based on the premium universe, what is our projected market share, assumptions and timeframes for achieving? Will the program generate the returns needed for both the carrier and program administrator?

   The business plan should be a static document, with a formal review of the assumptions on an annual basis (quarterly is recommended). In addition to formal reviews, any changes that challenge the assumptions should be considered on a real-time basis, such as a new competitor, newly identified exposures, etc.

2. **Develop performance metrics, and them measure, monitor and adjust where and when needed.**
   To achieve long-term success, it is critical for a program administrator to have a formal process in place to assess program performance on a monthly basis. All programs should have specific measurable performance metrics, such as: premium goals, targeted renewal retention and new business hit ratios, price monitoring/rate change data, and targeted loss ratio.

   Each measurable performance metric should have a benchmark, which if exceeded triggers a reaction. In the event that a performance metric is not met, it doesn't necessarily mean that the program is trending negatively. It may mean that the program experienced an unanticipated, but not critical event, or that the measurement needs to be recalibrated as the initial assumptions may be incorrect. For example, a program experiencing a drop off in new business may be experiencing the effect of a new competitor who is creating market disruption. Likewise, a loss ratio spike may not be reflective of the book overall, but could be the result of an unanticipated severity claim.

Ours is an industry that has been successful in collecting data, but not as effective in using data to influence our business decisions. The most successful program administrators have invested in systems which capture and analyze data used to manage their program portfolios. They also request routine written performance feedback from their carrier(s), including actuarial, claims, underwriting.

A program administrator who uses data to drive decision making has the tools to make smarter decisions. And, a successful program administrator develops their own data and knows as much, if not more than the carrier about their program metrics.

3. **Actively participate in claims.**
Few program administrators are granted claims management authority by their carriers. However; that does not imply that the program administrator does not have a role. The program administrator should be involved in reviewing the claims as they are reported, and monitoring them as well, (along with the carrier and/or their appointed third party claims administrator). There are several reasons why program administrators need to be actively engaged in the claims reporting, review and analysis process.

First, it is the responsibility of the program administrator to report claims. Rather than receive claims and just forward to the carrier, successful program administrators require the underwriter to review the claim details and advise the carrier of anything that should be considered in reviewing the claim, including coverage details, prior experience, etc. Secondly, it is critical that the program administrator understand the los drivers so that underwriting changes can be considered, such as excluding coverage, sub-limiting, or using deductibles, Third, the claim data should be analyzed to identify incidents and trends which could negatively impact the program results. For example, are there a disproportionate number of claims related to a specific type of operation and/or equipment? Are the average claim payouts higher in certain jurisdictions? And finally, if claims are handled improperly, i.e. delays, questionable payments, the program's loss experience will be adversely affected.

4. **Innovate and create.**
Program administrators who seize growth opportunities are positioned to be winners. Product innovation is critical to compete in the insurance marketplace, especially in program business, with strong competitors. Program administrators should be consistently monitoring their competitor product offerings, obtaining input from their retail agents and participating in industry trade shows.

Organic growth offers the program administrator the opportunity to grow premium with the least effort, and can often be accomplished with the current carrier via product enhancements.

New programs related to a program administrator's core competencies can also often be attractive to both current markets as well as new carriers. If the program administrator can leverage their existing relationships, document their ability to manage profitably and present a compelling business plan, (see point #1), the success factors on their side.

5. **Manage through market cycles**
   In simplest terms, market cycles in insurance refers to periods of tightened underwriting standards and higher prices which create surplus capital which ultimately is deployed into the market and leads to increased competition, relaxed underwriting standards and pricing decreases leading to underwriting losses, and the cycle begins again.

   Successful program administrators have demonstrated both an understanding, and acceptance of, these cycles. More importantly, they have planned for them and have demonstrated the ability to manage through them.

   There are three options when presented with a change in conditions: (1) status quo – do nothing, (2) withdraw – pull back, or (3) expand-grow. When market forces negatively impact a program, some program administrators make the decision to do nothing, and opt to just wait it out. While that is the easiest decision, I suggest that is not generally the best decision. How many programs have stagnated waiting for the market to harden? A successful program administrator will consider all options and then commit to the decision. The most successful, understand their business so well, that they can execute multiple strategies at the same time, for example, withdraw from specific classes or territories, expand into others, hold the course on some, etc.

   Successful program administrators recognize that the long-term viability of their program outweighs short-term setbacks, so will adjust their plans accordingly.

6. **Own failures**
   It may seem strange to discuss failures in tandem with winning strategies, but successful program administrators understand that despite best efforts, not all programs will work out. There are numerous reasons for program failure ranging from unanticipated competition, economic conditions affecting the industry segment, adverse loss experience, (beyond projections), and others.

   Successful program administrators recognize failures in their strategies and/or execution, and will attempt corrective action but as the old Kenny Rogers song goes, they also "know when to fold 'em." Equally important, they take responsibility for failures and learn from their mistakes. They don't ask, "What happened?" They know what happened, and they view failure as merely a temporary setback.

In summary, there is no easy or guaranteed path to successfully writing program business. The program development process is costly and time consuming. There are numerous obstacles to overcome before writing the first policy. There are on-going market challenges and significant competition. However, program business presents and exciting opportunity to creat a long-term profitable business and revenue stream.

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