

Getting the best from your UMA

The South African Underwriting Managers Association (SAUMA) has more than 80 registered members, meaning there is more than sufficient choice for the broker who wishes to make use of the services of an underwriting manager...

The underwriting management agency (UMA) model in South Africa has grown substantially over the last decade. It has helped to reshape the local insurance industry through the development of innovative insurance products that cater to segments of the market that generalist insurers tend to avoid.

"The entrance of UMAs in the late 1980s was largely in reaction to falling service levels in the local insurance market," says Dean Delpont, Executive: Insurance at Compass Insurance. "There was a growing need for specialised and niche product offerings that weren't being offered by insurance companies." By focusing on these niche products, UMAs provide superior service levels, highly focused on the needs of their target market.

Agent of the insurer

"A UMA is the agent of the insurer only, it does not sell policies directly to the insured and it does not operate in the broker's space," says Christine Rodrigues, Associate: Banking and Finance Department at Deneys Reitz. The UMA performs binder functions and other services on behalf of an insurer as an expert in a particular type of business. Its functions are regulated by insurance legislation and by a written agreement between the UMA and insurer.

Sydney James, Client Manager at Centriq Insurance expands on the concept: The UMA business model is a legal agreement between a principal (insurance company) and an agent (UMA) whereby the principal mandates the agent to perform certain underwriting and administration functions on its behalf. In other words, the agent needs to adhere to the terms of the mandate and account to the principal for all actions carried out in terms of that mandate. The insurer is 'bound' in respect of policies issued by the UMA. And the agreement is regulated and codified in various Acts in order to control the activities of UMAs and intermediaries acting under binding authorities from insurers...

He says there are two extreme views when it comes to the role and future of UMAs in the local insurance sector. The first is that UMAs exist to make profits at the expense of policyholders. Simply put they are remunerated based on their loss ratios – rewarded or penalised for the payment or non-payment of claims. A second view is that UMAs are a welcome consequence of the consolidation that has taken place in the insurance sector for years. They exist because there are fewer insurers and less choice for brokers and consumers as far as insurance products are concerned.

An ideal model

Why should a broker consider conducting its business via a UMA and what should a broker consider as strategically important when doing so? "The UMA model is ideal for those brokers who are looking to tap into niche areas," says Delpont. They deal with the same kinds of claims every day – whether that is a focus on thatched roofed houses, marine insurance or motor fleets – so they can provide the broker with expertise in what can be highly complex areas of insurance. The broker is then able to take this expert knowledge to the client and advise them properly on the risks that they may face, thereby ensuring they have an effective risk management strategy against a variety of potential risks.

Many brokers who partner with an agency deal exclusively with the UMA for a particular niche, so it is essential to partner with the right agency from the outset. While some entrepreneurs have been very successful in recognising opportunities to form UMAs, there have also been a number of failures due to a poor understanding of the business model. One of the key factors for a broker to keep in mind is the skill set of those working at and running the UMA.

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