

# QUEST FOR THE MIDDLE MARKET

*ACE offers program tailored for middle market accounts*


By Michael J. Moody, ARM, MBA

In the spirit of market resurgence, the insurance industry has once again “discovered” the middle market. This renewed interest is just a couple of years removed from when the large international brokers abandoned mid-sized accounts because, among other things, it took a great deal of resources to service them and they didn’t generate sufficient commission. Today, however, many in the industry want their share of the middle market. Most of the major brokers have established specific departments to pursue middle market accounts. Aon, Marsh, and Willis have all recently announced new strategic initiatives to attract Main Street business.

Mid-sized agents and brokers need to identify new resources to combat the emergence of the mega brokers. They need to find a highly rated insurer that understands the alternative risk transfer market and can apply its expertise to smaller accounts. Right on cue enters ACE USA (ACE). ACE is primarily known for handling coverage for Fortune 1,000-type accounts and has long been viewed as a risk management solution-based company. So it’s only natural that they take their strong risk-financing expertise to the middle market arena.

## **Middle market products**

Recently ACE introduced several risk management products specifically designed for the middle market. ACE

The ACE logo is a blue square with the letters 'ACE' in white. To its right are three large, green, 3D-style dollar signs. The logo and dollar signs are set against a light green background with a subtle pattern of smaller dollar signs.

*“ACE  
Risk Management has  
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*—Carol Frey  
Vice President  
National Sales & Marketing  
ACE Risk Management  
Commercial Accounts*

recognizes that the middle market has needs different from those of the Fortune 1,000, so its products do not take a national account “cookie cutter” approach to the middle market. Under the banner of ACE Risk Management (ARM)—Commercial Accounts, Carol Frey, vice president—national sales and marketing, notes that “ARM has made a long-term commitment to producers and clients who are serious about transitioning from guaranteed cost and lower maintenance deductibles, by organizationally dedicating underwriting, actuarial and credit resources to this insurance sector within our division.” In particular, ACE Risk Management can now entertain risk-financing solutions for accounts with loss picks (or loss expectancies) that are less than \$1 million.

While there are several middle market risk management products to

choose from at ACE Risk Management, Frey points out that “the funded deductible product is an excellent option for an organization that is transitioning from a guaranteed cost program.” It can serve as an escape from the burdens of the incurred loss retrospectively rated program or as a creative alternative for clients who are considering a rent-a-captive or group captive program. Coverages that can be included in this program are workers compensation, general liability and auto liability. ACE USA can also provide quotes for a variety of other coverages, such as excess/umbrella, property and environmental, to meet the unique needs of clients.

The funded deductible plan provides a number of benefits, including an up-front deductible premium credit on the casualty portion of the program. Another feature is a predetermined discount on cash collateral for funding of expected losses within the deductible level selected. The program also offers a guaranteed investment income amount that is agreed to in advance of policy inception. Finally, a program agreement outlines the predetermined adjustment intervals and loss development factors.

The target markets for the funded deductible program are public and private companies that may currently have a traditional incurred loss retrospectively rated program, or that are simply seeking an alternative to the letter of credit (LOC) that is traditionally required as security.

To assist the buyer, the funded deductible program can also be structured with coverage for the insured’s bottom line via “clash” protection. “It is sometimes difficult for corporations to transition to higher retentions across multiple lines of coverage,” Frey observes. This feature is designed to provide coverage in an instance when two or more lines of coverage are involved in a single incident, since the financial burden of paying two or more deductibles may be overwhelming. The “clash” feature would limit the exposure to a maximum of one deductible amount. This provides an alternative to the standard aggregate stop loss structure. “This combination of options offers buyers new and beneficial risk-financing alternatives that can help them transition into higher retentions or more sophisticated structures as they are ready,” Frey says.

In addition to flexibility, the ACE-funded deductible program also offers a number of other competitive advantages. Chief among these are its

A.M. Best A+ rating and its dedicated local underwriting staff that is experienced in putting together risk-financing program structures. Additionally, Frey points out that ACE’s middle market group “is willing to consider ‘tougher’ industries and classes of risks.” She also notes that the coverage is written on policies that are issued by the ACE Group of Companies to fulfill statutory requirements and limits as stated in the policies. She says: “We see a lot of bundling in this market segment; however, ACE uses separate contracts for claims and loss control services, which can be obtained from ACE’s risk management service partner, ESIS, or one of several other pre-qualified third-party administrators.”

### Proof is in the pudding

ACE has been fine-tuning its middle market products for the past few years, and a key factor in product development has been thorough input and feedback from select agents and brokers. One of the early brokers to get involved was Rebsamen Insurance Group in Little Rock, Arkansas. According to Jim Hill, president and chief operating officer, the firm has been involved with ACE for more than 10 years. However, he notes, “our level of activity has really turned a corner over the last 24 months.” The firm’s middle market business with ACE has gone from \$300,000 to over \$14 million during that period.

Another producer who was recently introduced to ACE’s middle market products is Robb Ricker, senior vice president in the Boston office of Wells Fargo Insurance Services. Ricker has just started using ACE’s funded deductible product over the past three or four months. This has already resulted in two new pieces of business.

Both Hill and Ricker have similar views about ACE’s ability to handle middle market business. They both appreciate the customized risk management approach that ACE is noted for, and the ability to extend this approach to the middle market was very appealing to both. Hill points out that the flexibility of the program was important because “it allows us to tailor the product to the needs of our clients.” Ricker also notes that the funded deductible program offers his clients a viable alternative to the LOC requirement that is typical for this type of program, and “was the perfect program for the situation.” In fact, his client could not issue an LOC and needed to find an innovative product.

In addition to the lack of LOC requirement, the brokers note several other features that give a unique competitive advantage to the ACE funded deductible program. One is the guaranteed investment income feature. Although several similar programs provide for investment credits, Ricker observes, “The key here is that it is guaranteed.” Having this amount agreed to prior to the sale of the product has also benefited Hill’s clients. “With the competitiveness of this market, it is these kinds of features that can turn a deal,” he says.

Other key advantages that ACE brings to the table are the financial strength and security of the underwriting companies within the ACE Group of Companies. Hill says this is a “must have” for his clients. Further, the ability to work with the local ACE underwriters was also vitally important to both brokers. “This way they can respond quickly to our needs,” says Hill. Ricker adds that the “interaction with the local ACE office has helped us greatly.”

Another advantage identified by Hill and Ricker is the quality of the claims service ACE provides. Both brokers like the working relationship between ACE and ESIS, ACE’s third-party administrative partner. Ricker says that one of his clients could easily see that ESIS was working on the client’s behalf, “rather than operating as just part of an insurance company’s claims department.”

### Summing up

With renewed interest in the middle market segment, it’s important for mid-sized agents and brokers to identify carriers that have options they can take to their clients or prospects to help win the business. In today’s market, Rebsamen Insurance Group’s Hill points out, “You need more than just a competitive quote; now you need options tailored to the client’s needs.” And with more interest in risk management-based programs, “The CFO will want to know and understand all the financial aspects of the transaction,” says Wells Fargo’s Ricker.

At the end of the day, both brokers assert, “It’s all about relationships.” Says Ricker, “That is where ACE really shines.” Frey goes on to note, “It is important that we develop a good working relationship with our agents and brokers. In fact,” she says, “we consider it a true partnership when we collaborate to assist our mutual client reach both its short-term and long-term risk-financing objectives.” ■