

# MGA-PA-TPA Examinations

Helping the insurance industry remain compliant and ahead of risk

Many states have adopted the NAIC Managing General Agents Act, requiring companies to perform a review at least annually. The requirements are comprehensive, setting standards in areas including operations, management, underwriting and claims handling. Insurers delegating underwriting authority to Managing General Agents (MGAs) or Program Administrators (PAs), without having the infrastructure in place to monitor compliance by the MGA/PA, cannot effectively control this business.

## MEETING THE CHALLENGES: THE FTI CONSULTING DIFFERENCE

FTI Consulting, Global Insurance Services includes a dedicated team of audit professionals with extensive experience working with large carriers. Our professionals are well versed in the intricacies of businesses written through MGAs and PAs.

In addition, our professionals can call on the expertise of team members that include actuaries, claims specialists, CPAs, forensic accountants, investigators, and former regulators with hands-on financial, operational, regulatory and litigation support experience in the full range of functions across all lines of business within insurers, reinsurers and third party administrators (TPAs).

## HOW FTI CONSULTING CAN HELP

Our comprehensive services range in scope from a desk review to an onsite limited review or a full review. Our methodology includes a three-phase approach.



### Planning

- Discuss any known issues or concerns
- Identify key contractual requirements in program administration and claims administration agreements
- Establish contact with MGA/PA/TPA and set dates for on-site review
- Perform data mining of key data elements by analyzing 100% of the data, focusing on areas of potential risk

### On Site

- Execute all key steps of the audit program
- Interview key management of the MGA/PA/TPA
- Review MGA/PA/TPA financial statements to assess financial viability of organization
- Examine policy and claims files
- Test other key contractual requirements (i.e. insurance coverage, bank statements, aged accounts receivable)

### Post Field Work

- Provide summary of key issues and recommendations (within 3 days of field work)
- Draft report with recommendations for actionable items with supporting exhibits
- Provide all work papers

## KEY ELEMENTS

### Data Mining

- Executing a detailed inception to current date reconciliation of written premium, cash and loss data between the MGA/PA/TPA and insurance company records
- Analyzing claim and policy transactions via pre-established reports to identify anomalies (e.g. claim without premium from associated policy period, policy not within policy guidelines)
- Recalculation and validation of key amounts (e.g. premiums, commissions and fees)
- Using statistical sampling to select policy or claim files for detailed examination

### Financial Related Areas of Focus

- Examining financial viability of MGA/PA/TPA through analysis of financial statements and calculation and comparison of Key ratios (e.g. current ratio, acid ratio, premium collection ratio, working capital ratio) to industry standards

- Completing tailored MGA/PA/TPA key control questionnaire to identify potential control issues (e.g. handing of cash, system access controls)
- Extensive review and testing of the billing and cash processes and controls (segregation of cash into fiduciary bank account, bank account signatories, timely and accurate carrier payment)
- Reviewing Aged Accounts Receivable report to determine if MGA/PA/TPA may be having premium collection issues

#### Review Of Key Contract Provisions

- Existence of insurance coverage
- Establishment of proper fiduciary bank accounts
- Adequate disaster recovery plan including data back-ups

#### Review Of Adherence To Key Technical Underwriting Guidelines

- Authorized risks are written
- Underwriting data is present in underwriting file
- Cancellations/non-renewals processed timely
- Limits and coverages are authorized and within the guidelines

#### Sample Findings

- MGA/PA does not maintain separate fiduciary accounts and instead commingles insurance company funds with operating funds
- MGA/PA intentionally diverts fiduciary funds from premium trust account to operating account
- MGA/PA is technically insolvent
- MGA/PA does not maintain minimum required E&O and Fidelity insurance

- MGA/PA does not maintain sufficient bank accounts that provide assurance that insurance carrier funds are always protected (i.e. Average cash balances are well above FDIC insured amounts)
- MGA/PA creates fictitious entries on financial statements in an attempt to cover up embezzlement of fiduciary funds

#### KEY DELIVERABLES

- Summary of issues identified and recommendations
- Complete set of work papers which can be provided to the insurance company's external auditors to rely on work completed
- Report with supporting exhibits detailing work performed
- A sample of exhibits can include MGA/PA/TPA financial statements; reconciliation of ITD data between MGA/PA/TPA and insurance company; MGA/PA/TPA insurance coverage declaration pages; disaster recovery plan

*Contact our experts to learn more about our full scope of critical services to the insurance industry.*



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#### About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. For more information, visit [www.fticonsulting.com](http://www.fticonsulting.com) and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.