1. The critical importance of efficiency for an underwriting operation

A lean operation is critical for the long-term success of an underwriting organization for the straight-forward reason that any such operation must write enough business to cover its costs. Therefore, a more efficient operation has several significant advantages over its competitors:

- Enables more selective underwriting (hit ratio <10%)
- Enables low cost to capacity providers
- Enables more competitive pricing

2. Lower ongoing costs

There can be several reasons why a professionally-managed MGA will be the lowest cost solution:

1. A modern, professionally-managed MGA should have a state-of-the-art, lean operation where all mechanical[1] steps of the underwriting and transactional processes are fully automated.
2. A professionally-managed MGA servicing more than one capacity provider can effectively spread many of the costs among multiple capacity providers.
3. Most underwriting units of complex, large insurance groups are burdened with excessive infrastructure, bureaucracy, and legacy issues. As an alternative, a professionally-managed MGA can offer a guaranteed, relatively low contractual expense rate with automated reporting.
4. No transaction level involvement required of capacity providers
5. Scalability: MGA's can expand rapidly or scale down depending on market conditions

3. A structure that enables superior underwriting

An underwriting operation with low costs that can be spread among many capacity providers can be more selective by writing a small, top quality, well-priced portion of market segments while still achieving adequate volumes to cover expenses. The end result for capacity providers is a better than average portfolio delivered at lower cost than most competitors' underwriting operations.

As an example, if we compare two underwriting organizations that have different costs as a percent of premium:

1. ACME Complex Insurance Group writes a market segment at a relatively competitive internal cost of 16% of premium and adds a 25% margin on top of costs so they need to keep 20% of premiums, leaving 80% for incurred losses and external costs such as brokerage.
2. Selective and Efficient MGA writes a market segment for multiple capacity providers at an internal cost of 8% of premium and adds a 25% margin on top of costs so they charge their capacity providers 10% of premiums, leaving 90% for incurred losses and external costs such as brokerage.

In order to cover their internal costs and required returns, ACME must write at least what they consider the best 20% of the business they see, declining at most 80%.

[1] as opposed to analytical or judgmental

In contrast, Selective and Efficient only has to write what it considers the best 10% of the business they see and can afford to decline as much as 90%. In a soft market such as today's, this can make the difference between profits or losses for capacity providers.

4. Reduced impact on and of market competitive pressures.

Let's again consider a hypothetical example. Consider a market segment with 10 capacity providers, each with their own active, quoting underwriting infrastructure and organization. 5 new capacity providers want to enter the segment because alternative diversifying investments don't seem as attractive right now. If these 5 new participants follow the traditional route, they each incur the costs of developing and implementing their underwriting organizations, including poaching a few expensive underwriting managers from existing players, pushing staffing costs up for the whole market.

The overall result: significant overall costs added to the market, 15 underwriting organizations quoting prices, the lowest of which usually setting the market price. None of the new organizations have much market presence (or if they do, it is the result of low pricing). There are 15 underwriting teams that fear losing their jobs if they don't write enough business to cover their costs.

In contrast, if these 5 capacity providers choose to partner with an existing professionally-managed MGA, there are no new underwriting infrastructure and organizations to develop but probably some costs to expand one organization. Instead of adding five mouths that need to be fed from the same table, there are no new ones but one bigger one that needs more food. Overall, there are much lower overall costs. That one bigger player likely has stronger negotiating leverage than each of the five independent new active underwriters in the previous scenario.

5. Kemah Capital's Expense Advantage

We write a small and high quality, well-priced portion of market segments while still achieving adequate volumes to cover our expenses. The end result for capacity providers is a better than average portfolio delivered at lower cost than most competitors' underwriting operations.

We expect to maintain a significant expense advantage over most competitors by avoiding excessive infrastructure. Roughly 50% of carriers' historical expenses have been allocated, indirect expenses such as group costs and corporate overhead. We believe most competitors that are part of complex, large groups have similar overhead costs that we intend to avoid with our lean approach.

By automating all mechanical steps of the underwriting process, we can be more selective by writing a small, top quality, well-priced portion of market segments while still achieving adequate volumes to cover our expenses. The end result for capacity providers is a better than average portfolio delivered at lower cost than most competitors' underwriting operations.

Most underwriting units of complex, large insurance groups are burdened with excessive infrastructure and bureaucracy. As an alternative, we offer:

- Guaranteed 10% Contractual Expense Rates (& 10% Profit commission) with automated reporting
- No transaction level involvement required of capacity providers
- Scalability: we can expand rapidly or scale down depending on market conditions

5.1 Our Expense Advantage

	Historical Expense Ratios as an Internal Underwriting Unit							Prospective Expense Ratios as a lean MGA				
	2010	2011	2012	2013	2014	2015	Avg	2018	2019	2020	2021	Avg
Acquisition Costs	17%	16%	16%	15%	16%	16%	16%	16%	16%	16%	16%	16%
Direct Costs	5%	5%	4%	5%	6%	5%	5%	10%	10%	10%	10%	10%
Indirect Costs	10%	9%	8%	11%	10%	9%	9%	1.5%	1.5%	1.5%	1.5%	1.5%
Reinsurance Cost	7%	2%	9%	10%	14%	11%	9%	0%	0%	0%	0%	0%
Total Costs	**38%**	**32%**	**37%**	**41%**	**44%**	**36%**	**38%**	**27.5%**	**27.5%**	**27.5%**	**27%**	**27.5%**

5.2 How do we enable effective decision-making, advanced technical underwriting, and fast responsive service as a lean operation?

- Automation and Know-How
  - Systems, processes, and workflows have all been designed and built from scratch.
  - Mechanical steps of the process such as data input, clearance, modeling, etc.. are performed in an assembly line manner.
    - Enables underwriters to focus on real underwriting
- All state-of-the-art, modern
- No legacy issues or systems
  - Bespoke, custom-made underwriting and pricing system
  - AIR Catastrophe modeling with automated data transfer
  - Outsourced underwriting support by efficient, trained outsource partners
    - Submission data formatted and input
    - Kemah oversight of cat modeling
  - Automated workflow system generating quick hand-off to underwriters

Our processes and systems enable underwriters to focus on underwriting so they can thoroughly analyze much higher volumes of submissions than the vast majority of competitors.