November 27, 2023

Market Segment Outlook: Delegated Underwriting Authority Enterprises

AM Best is maintaining its outlook for the segment at Positive, owing to prospects for sustained growth, among other factors

AM Best is maintaining its outlook for the global delegated underwriting authority enterprises (DUAE) segment at Positive. Key factors that have led to the Positive outlook include the following:

- Sustained growth and performance globally
- Ability to address underserved and emerging risks
- Technology and talent, which continue to drive innovation

Factors countering these tailwinds include the following:

- Tight capacity for certain risks
- Uncertainty looming over fronting market
- Ongoing and evolving economic challenges

AM Best defines a DUAE as a third party appointed by a (re)insurer through contractual agreements, to perform underwriting, claims handling and other administrative functions on behalf of its partners. DUAEs comprise entities such as managing general agents, coverholders, program administrators, program underwriters, underwriting agencies, and appointed representatives.

Sustained Growth and Performance Globally

The DUAE segment is still burgeoning with opportunity despite capacity constraints, specifically in the property market. AM Best research shows that DUAEs are expanding their share of premium written across the broader insurance market, while new entrants keep growing in number. The rising number of DUAEs collaborating with insurers to write specialty business is driving the increase in US property/casualty premium generated by DUAEs overall. In a review of data in Note 19 of insurance companies' 2022 NAIC (National Association of Insurance Commissioners) statements, AM Best's analysis indicates that managing general agents (MGAs) generated direct premiums written (DPW) of over USD 65 billion. Insurance carriers striving for organic growth find the direct access DUAEs provide to policyholders to be profitable.

An important element in a carrier-DUAE relationship is cementing a long-term partnership. Profit-sharing structures have grown notably, reinforcing the contractual alignment of interests and fostering long-term relationships and stable capacity. Significant growth has occurred with DUAEs forming captives to take part of the business they produce as capacity partners look for greater alignment. Captives provide DUAEs with a strategic advantage when negotiating renewals with their (re)insurers. Captives also allow DUAEs to participate in underwriting profits beyond earnings from a profit commission or sliding scale.

DUAEs are playing an important role in insurance growth and distribution in Europe and Asia-Pacific, given their underwriting expertise, technology, and a broader range of capacity providers.

Analytical Contact:
Riley Parnham, Oldwick
+1 (908) 882-2229
Riley.Parnham@ambest.com

2023-147

The UK, including the London market, is Europe's biggest and most sophisticated DUAE market. Established DUAE players in the US and UK are looking to extend their operations, by growing and diversifying into other countries. This has led to a number of new start-ups and acquisitions of existing businesses by DUAE groups based outside the US. AM Best expects this trend to continue and to drive further growth in global markets.

Ability to Address Underserved and Emerging Risks

One of the core value propositions of a DUAE is its ability to bring specialized underwriting skills and market expertise to emerging and evolving risks. The growth of volatile risks, including exposures to more frequent and severe US-weather related events such as wildfires and severe convective storms, has supported the sizable growth of premium generated by DUAEs the last couple of years. Challenges due to secondary perils allow DUAEs to play a vital role in matching these risks and surplus lines insurers.

The DUAE model allows insurers to move more quickly, exploit niche markets, show creativity in coverages, and target opportunities moving from the admitted to the excess and surplus lines (E&S) market. The hard market for most lines of business has offered opportunities for DUAEs to thrive and will allow them to capture more market share. Historically, under hard market conditions, carriers have tended to move away from the DUAE model, but the maturity in the DUAE space, coupled with opportunities that offer carriers access to certain lines of business, suggests value in the partnership.

Technology and Talent Driving Innovation

Significant investments in technology allow DUAEs to better analyze data in volatile markets and attract talent from the tech industry. The segment's ability to use data and technology for good risk selection, coupled with its nimbleness, means that capital and capacity providers are still dedicated to the DUAE model despite broader market conditions. The focus on quality technology is not only about data analysis and modeling—there is also need for continually streamlined technology that can identify untapped niche markets, increase touchpoints with clients, and improve the policyholder experience. Data is clearly now the key to strong partnerships. Data requires investment in technology that can be expensive, and the benefits must outweigh the costs to be seen as value creating.

Tech talent is drawn to DUAEs in a way that traditional insurers struggle to rival. In addition to the entrepreneurial opportunities that attract talent, DUAEs have proved attractive to technology professionals such as data scientists and engineers. Competition for talent from the traditional market and beyond is expected to remain tight, as the segment continues to attract diverse sources of capital.

Capacity Constraints

AM Best has not witnessed a sector-wide pullback of capacity for DUAE-sourced business in 2023 and does not expect one in 2024. Reinsurers were prudent in their deployment of overall capacity at year-end 2022 and again at mid-year renewals, and even more so regarding the underwriting of property risks. DUAEs active in reinsurance placement faced similar challenges to primary insurers: tightened terms and conditions, increased retentions, reduced limits, and lower ceding commissions.

DUAEs continue to play an integral role in the insurance distribution value chain, often sitting between intermediaries such as retail or wholesale brokers and insurance companies. The specialized nature of most DUAEs allows them to team up with insurance company partners to focus on specialized businesses and their unique risks. As such, DUAEs have strengthened the value of fronting companies. Given events of the past year (such as Vestoo, as well as funding pressures from private equity and venture capital firms), fronting carriers will need to demonstrate their ability to monitor and manage credit risk through robust enterprise risk management (ERM) practices, to showcase their value. Fronting companies have provided access for more reinsurance participation as reinsurers' appetite for DUAE business remains solid. However, incidents in the fronting space have yet to completely play out, and these hiccups may have an impact on DUAE capacity.

Continued Economic Challenges

The segment is not immune to macroeconomic challenges. Although inflation tends to escalate premium volume, concerns about the impact on current and prior year expected losses are growing. Fraudulent claims may increase as economic conditions have hit the pockets of small businesses and individuals. For DUAEs directly, the inflationary environment remains an obstacle to meeting expense budgets and targets over the near term. Social inflation has challenged DUAEs, particularly in litigious states and certain lines of business.

Looking Ahead

DUAEs have become a relied-upon distribution channel for insurers of all types and under all market conditions. Despite capacity pressures and macroeconomic challenges, the DUAE segment continues to flourish. Talent and technology have played a vital role in adding value to the market, particularly in more difficult conditions. There are many opportunities for DUAEs to grow and expand into new areas and to develop new coverages and products to address the ever-changing risks faced around the world.

These are the key factors determining our outlooks at this time. AM Best reserves the right to revisit the outlook if any of these risks fall outside expectations.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook	
Positive	A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive.
Negative	A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative.
Stable	A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

Published by AM Best

BEST'S MARKET SEGMENT REPORT

A.M. Best Company, Inc.
Oldwick, NJ
CHAIRMAN, PRESIDENT & CEO **Arthur Snyder III**
SENIOR VICE PRESIDENT & TREASURER **Cynthia Young**
SENIOR VICE PRESIDENTS **Lee McDonald, Thomas J. Plummer**

A.M. Best Rating Services, Inc.
Oldwick, NJ
PRESIDENT & CEO **Matthew C. Mosher**
EXECUTIVE VICE PRESIDENT & COO **James Gillard**
EXECUTIVE VICE PRESIDENT & CSO **Andrea Keenan**
SENIOR MANAGING DIRECTORS **Edward H. Easop, Stefan W. Holzberger, James F. Snee**

AMERICAS

WORLD HEADQUARTERS
A.M. Best Company, Inc.
A.M. Best Rating Services, Inc.
1 Ambest Road, Oldwick, NJ 08858
Phone: +1 908 439 2200

MEXICO CITY
A.M. Best América Latina, S.A. de C.V.
Av. Paseo de la Reforma 412, Piso 23,
Col. Juárez, Alcadía Cuauhtémoc, C.P. 06600, México, D.F.
Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)

LONDON
A.M. Best Europe - Information Services Ltd.
A.M. Best Europe - Rating Services Ltd.
12 Arthur Street, 8th Floor, London, UK EC4R 9AB
Phone: +44 20 7626 6264

AMSTERDAM
A.M. Best (EU) Rating Services B.V.
NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
Phone: +31 20 308 5420

DUBAI*
A.M. Best - MENA, South & Central Asia*
Office 102, Tower 2, Currency House, DIFC
P.O. Box 506617, Dubai, UAE
Phone: +971 4375 2780
*Regulated by the DFSA as a Representative Office

ASIA-PACIFIC

HONG KONG
A.M. Best Asia-Pacific Ltd
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827 3400

SINGAPORE
A.M. Best Asia-Pacific (Singapore) Pte. Ltd
6 Battery Road, #39-04, Singapore
Phone: +65 6303 5000

Best's Financial Strength Rating (FSR): an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts.

Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

Best's National Scale Rating (NSR): a relative measure of creditworthiness in a specific local jurisdiction that is issued on a long-term basis and derived exclusively by mapping the NSR from a corresponding global ICR using a transition chart.

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile, and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.

Version 041423