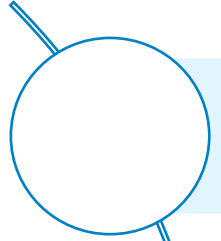


The Growing Role of Delegated Underwriting

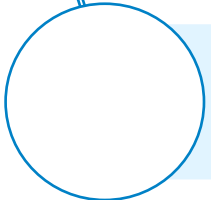
Greg Williams – Senior Director, AM Best

Canada Insurance Market Briefing – Toronto
September 9, 2022

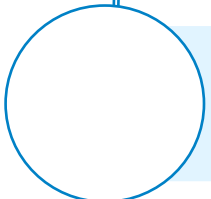
Agenda



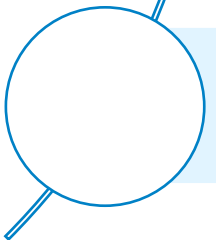
DUAE Basics



DUAE Market Trends & Observations



PA for DUAES



Questions

What is a Delegated Underwriting Authority Enterprise (DUAEE)?

- AM Best defines a DUAEE as a third party entity that is appointed by a (re)insurer, through contractual agreements, to perform underwriting, claims handling, and/or administrative functions on behalf of their carrier partners
- Typically carried out by insurers, DUAEE's functions can include:

**Binding
coverage**

**Underwriting
and pricing**

**Settling
claims**

**Appointing
retail agents
in a certain
region**

**Access to
niche
segments
and markets**

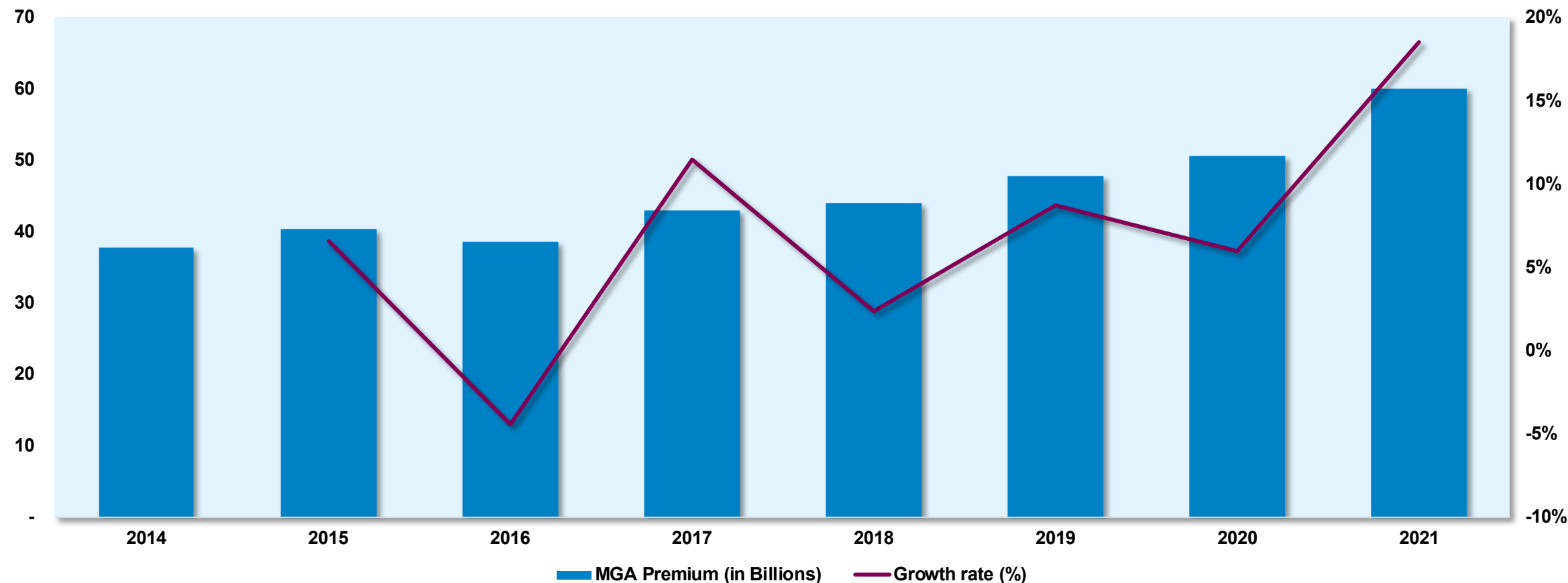
- The DUAEE manages all or part of the insurance business of an insurer and acts as an insurance agent or broker for the insurer, while working as the intermediary between insurers and agents, and/or insured

Partnerships with DUAEs

- Allow insurers to achieve growth targets and execute diversification strategies in line with their risk appetite
- Among the key benefits DUAEs provide:
 - Risk class expertise
 - Product line expertise
 - Geographic expertise
 - Niche market relationships
- Generally unencumbered by legacy systems
- Incubators for digital processes and new technologies
- Alignment of interests remains critical

Premiums Written by MGAs – U.S.

Premiums Written by MGAs and Growth Rates



DUAE Market Trends & Observations

- “Golden Age of MGAs Continue” – Conning 2021 Report
- Pricing continues to be strong – some moderation
- “A Market for All Cycles”
- Talent pool expanding and deepening
- Rise of frontiers
- M&A continues
- Capacity trends
 - Reinsurer appetite
 - ILS participation

Performance Assessments for Delegated Underwriting Authority Enterprises (PA for DUAEE)

Recap on Methodology Rollout

Draft methodology released for comment in March 2021

Received extensive feedback from market participants (DUAEs, insurance carriers, brokers, regulators, associations)

Beta testing was conducted during the second half of 2021 to refine processes and information requirements

Methodology released live on February 1, 2022

Four public PAs released to-date

PA for DUAEs Components

Key Assessment Factor	Max Points
Underwriting Capabilities	10 (steps of 2)
Governance and Internal Controls	10 (steps of 2)
Financial Condition	10 (steps of 2)
Organizational Talent	5
Depth and Breadth of Relationship	5

A higher overall number of points indicates the DUAЕ's relative ability to perform services on behalf of its insurance partners through:

- effective business underwriting
- strong financial condition
- excellent access to business
- high-level service
- strong business relationships and governance

Best's PA for DUAЕs = Underwriting Capabilities + Governance and Internal Controls + Financial Condition + Organizational Talent + Depth and Breadth of Relationships

*** Underwriting Capabilities, Governance & Internal Controls and Financial Condition have twice the weight of other components**

PA for DUAEs – Final Outcome

Assessment Categories	Assessment Symbols	Assessment Ranges
Exceptional	PA-1	34-40
Excellent	PA-2	27-33
Strong	PA-3	20-26
Fair	PA-4	13-19
Weak	PA-5	Up to 12

The PA scale outlines the DUAЕ's:

- Relative ability to perform services on behalf of its insurance partners
- Underwriting expertise
- Financial performance indicators
- Company processes
- Appropriateness of governance and internal controls

Published Performance Assessments

	Castel U/W Agencies, Ltd.	CargoCorp	FIIA	Delta International Limited
2021 GWP (USD million)	190.9	9.6	47.0	52.8
Example Lines of Business	Warranty & Indemnity, Mega Yachts, Construction	Marine	Professional Liability	Liability / Property
Primary Markets	UK and Europe	Latin America	US	New Zealand / Australia / Singapore
Parent Company	Arch Capital Group Limited	Standalone Entity	Standalone Entity	Standalone Entity
Performance Assessment / Outlook	PA-2 (Excellent) / Stable *	PA-3 (Strong) / Stable	PA-3 (Strong) / Stable	PA-2 (Excellent) / Stable *
Effective Date	04/04/2022	04/04/2022	04/25/2022	8/22/2022

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