BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage®

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Market Segment Outlook: Delegated Underwriting Authority Enterprises

The outlook for the global DUAE segment remains at Positive, owing to sustained growth and niche expertise, despite potential capacity challenges

AM Best is maintaining its Positive outlook for the global delegated underwriting authority enterprises (DUAE) segment, owing to the following key factors:

- DUAE distribution channel's sustained growth and resilience globally
- Niche expertise and tailored solutions for specialty lines and emerging risks
- Continued investment in talent and technology, which supports versatility

Factors countering these positives include the following:

- Capacity challenges
- Additional scrutiny of DUAEs by market participants

DUAE Distribution Channel's Sustained Growth and Resilience Globally

DUAEs have established themselves as an important distribution channel for insurers over the business cycle. The channel continues to increase its market share, supported by strong and sustained premium growth globally. Accompanying the segment's robust premium growth is the rising number of DUAEs, as the market continues to attract new entrants. Capacity for the DUAE segment benefits from ongoing material growth in the excess and surplus (E&S) market, as elevated catastrophe activity and the regulatory environment continue to direct more premiums into surplus line businesses. AM Best expects growth drivers—strong capacity, diverse capital sources, growing niche expertise, and continued investment in talent and technology—for the DUAE segment to remain largely consistent.

General optimism among insurers and reinsurers about DUAEs persists, with more strategic partnerships being formed between carriers and DUAEs. These strategic partnerships are generally longer-term and allow capacity support across lines of business, industries, and geographies, instead of simply by program. Supported by integrated structures of profit commissions and loss corridors, strategic collaborations demonstrate long-term commitment from both sides in creating mutually beneficial risk management solutions. The alignment of interests is further complemented by profit-sharing models, whereby DUAEs establish captives to assume risks alongside their carrier partners.

Niche Expertise and Tailored Solutions for Specialty Lines and Emerging Risks

DUAEs are increasingly proving their value in the E&S and specialty marketplace. The niche underwriting expertise offered by DUAEs, bolstered by proprietary technology and databases, allows them to develop tailored and creative solutions for hard-to-place risks. In addition to participating in traditional insurance markets globally, DUAEs find themselves in non-traditional spaces such as partnerships with fronting and hybrid fronting companies as well as start-up specialty commercial carriers. Non-traditional solutions such as collateralized reinsurance and

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insurance-linked securities are used to supplement more traditional binding programs, effectively optimizing DUAEs' and their carrier partners' capital efficiency. The DUAE model allows carriers to reach niche markets without full exposure to market volatility—DUAEs extend their agility to their partners by offering carriers a cost-effective way to enter and exit new markets and take on different risks (or not). The specialized product, industry, and market knowledge that DUAEs bring to the table further strengthen their strategic value to their partners.

The segment's growing niche expertise is aligned with the insurance industry's growing demand for specialty products. As technological advancements and evolving market conditions give rise to more complex risks, DUAEs that can differentiate themselves through innovation and expertise will be better equipped to address these challenging and emerging risks. With the E&S market maintaining its growth momentum, conditions are ripe for the continued expansion of DUAEs. By developing programs that effectively link supply to demand in various specialty lines, DUAEs can capitalize on profitable opportunities overlooked by the traditional market. This leads to a reinforcing feedback loop that can generate favorable trends in both the E&S and DUAE segments over the near term.

Continued Investment in Talent and Technology Supports Versatility

Underpinning the DUAE segment's niche and versatility is its substantial and continued investment in technology. Free from legacy systems, DUAEs leverage data and analytics to promote better risk selection, build differentiated programs, streamline operations, drive product development, and nimbly scale up and down in response to market changes. Many DUAEs operate on proprietary digital platforms and use data-driven placement strategies to drive underwriting and distribution efficiency, while equipping their partners with value-adding, cutting-edge risk assessment tools. The segment's commitment to technological innovation has consistently attracted talent, funding, and strategic capacity.

Talent is drawn to DUAEs in a way that traditional insurers struggle to replicate. The industry's entrepreneurial culture appeals to professionals seeking a dynamic and flexible working environment, as well as ownership and growth opportunities. The heavy investment in technology attracts fresh talent from the tech industry. In addition, as demand for underwriters, especially those with niche expertise, remains strong, the DUAE model's low overhead costs (compared with insurers) allow DUAEs to offer competitive compensation packages that continue to lure specialized talent.

Capacity Challenges

The segment's strengthening ties to the E&S and fronting sectors can serve as a double-edged sword. As DUAEs increasingly become major players in these markets—which receive significant capacity support from reinsurers—they face a greater dependence on reinsurance. Given elevated catastrophe losses, reinsurance renewals may have higher costs as well as tighter terms and conditions. Reinsurance capacity constraints can negatively affect the DUAE market in the form of capacity tightening, compressed commission income, and narrowing underwriting margins, as well as weakened bottom-line performance. As collateralized reinsurers have become another important source of capacity for DUAEs, any reduction in their availability due to loss development, additional reserving requirements, or credit issues will negatively impact the DUAE market. Additionally, more stringent underwriting conditions in the Lloyd's market are suppressing growth in its delegated authority businesses, which is also pressuring capacity. Lloyd's remains the largest capacity provider for DUAE business, particularly in the US.

Additional Scrutiny of DUAEs by Market Participants

Internal governance and controls as part of risk management are critical to keeping pace with the DUAE segment's rapid growth. The fronting market's considerable expansion, execution risks for DUAE startup operations and fronting carriers, and the complexity of non-traditional instruments all warrant ongoing monitoring and scrutiny. Private equities' funding of DUAEs also calls for proper due diligence of DUAEs' sources of capital. In the UK, Lloyd's management has expressed concerns about the quality of its delegated businesses and called for caution in risk selection. Meanwhile, questions are being raised about regulatory compliance when it comes to UK DUAEs using overseas capacity providers that are not authorized to write business in the country.

DUAEs are subject to less stringent regulatory guidelines than insurance companies are, so upholding discipline in underwriting and reserving practices, building sound internal governance and enterprise risk management systems, conducting appropriate due diligence in their partnerships, and ensuring long-term alignment of interest are all the more important for market participants.

Moreover, there is less data transparency in the DUAE segment than in the traditional market. The need for prudence amid rapid growth can allow individual players to balance growth with stability of revenue, profitability, partnerships, and talent retention. It will also help enhance efficiency in the insurance marketplace as DUAEs remain a vital part of the ecosystem.

These are the key factors determining our outlooks at this time. AM Best reserves the right to revisit its outlook if any of the risks stated 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.
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We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

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