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Market Segment Outlook: Delegated Underwriting Authority Enterprises

The outlook for DUAE is revised from Positive to Stable, reflecting emerging headwinds, including capacity challenges and pricing pressure at renewals

AM Best is revising its outlook from Positive to Stable for the global delegated underwriting authority enterprises (DUAE) segment, reflecting moderating growth and emerging headwinds, including more selective capacity and greater performance pressure from carrier and reinsurance partners. The DUAE segment remains well positioned as a go-to market for (re)insurers.

Key factors supporting the Stable outlook:

- The global DUAE distribution channel exhibits sustained growth and resilience.
- Niche expertise and tailored solutions for specialty lines and emerging risks are prevalent.
- Investment in talent and technology supports a nimble, scalable, and adaptable business model.

Countering factors include the following:

- Capacity challenges, including selective deployment and pricing/cession pressure at renewals, are present.
- Market participants place added scrutiny on DUAEs as it relates to data quality, governance, and collateral requirements.

Global DUAE Distribution Channel's Sustained Growth and Resilience

DUAEs have established themselves as an important distribution channel for insurers over the business cycle. The channel has increased its global market share in recent years as premium from the global DUAE market is estimated by Howden Re to be $150 billion. The US market alone contributed over $100 billion in premium in 2024 and has posted double-digit increases annually for the last four years. 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 has been supported by excess and surplus (E&S) lines growth; however, recent rate moderation and more selective deployment suggest a more balanced contribution from this channel going forward. Carriers and DUAEs continue to add programs, but the current level of capacity is likely to push rates down and make performance a more important differentiator. 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 continue, but with a moderating impact amid selective capacity, tighter economics at renewals, and heightened oversight.

Optimism among insurers and reinsurers remains, although more guarded, with ongoing strategic partnerships 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

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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 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 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. The specialized product, industry, and market knowledge that DUAEs bring to the table further strengthens 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 E&S growth moderating somewhat and capacity becoming more selective, conditions support continued participation by DUAEs, but expansion is expected to be more measured. 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 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 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 to traditional insurers) enable DUAEs to offer competitive compensation packages that attracts specialized talent.

Capacity Challenges

The segment's strengthening ties to the E&S and fronting segments is a double-edged sword. As DUAEs become major players in these markets, which receive significant capacity support from reinsurers, they face a greater dependence on reinsurance. 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, capacity from the Lloyd's market has fluctuated over recent years as the market places more oversight on the quality and performance of its delegated providers. Lloyd's remains the largest capacity provider for DUAE business, particularly in the US.

More recently, softer reinsurance/retro pricing has encouraged higher quota share cessions and ceding commissions at renewals. While this can support capacity availability, it can also compress economics for capacity providers and raise performance hurdles for DUAEs.

Post-Vesttoo collateral reviews have tightened security protocols and increased frictional costs, particularly for fronted programs, potentially slowing program launches or expansions. As fronting carriers have grown rapidly, capacity providers are looking more closely at loss-ratio trends and collateral quality, which can translate into tighter terms for DUAEs

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.

Across markets, expectations for timely, high-quality data and continuous monitoring are rising, increasing fixed operating costs and favoring scale. Industry consolidation among large brokers is also concentrating placement power, which can pressure commission terms and increase acquisition costs for independent DUAEs.

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.

Given the balance of opportunities and emerging headwinds described, a Stable outlook appropriately reflects current risk-reward conditions. AM Best will revisit this stance if risks or performance deviate materially from 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.

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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.

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