

Our Insight, Your Advantage®

February 3, 2025

## Sustained Growth Potential for DUAЕ Market Segment

A preponderance of insurers expects DUAЕ-sourced premium to continue to grow

In August 2024, AM Best conducted a market-wide survey of rated carriers globally to assess the strengths, challenges, and evolving expectations of the delegated underwriting authority enterprises (DUAЕ) segment. AM Best defines a DUAЕ as a third-party entity that is contractually appointed by an insurer or reinsurer to perform underwriting, claims handling, or other administrative functions on behalf of their carrier partners. Survey results paint a picture of a segment that is highly valued for its specialization, agility, and adoption of technology—but one that is also under pressure owing to challenges in understanding and maintaining regulatory compliance, financial stability, and accountability.

### Key Takeaways

- The survey finds that carriers highly value the flexibility of the DUAЕ segment.
- The DUAЕ market's potential to sustain recent growth trends is directly tied to the expertise of these entities.
- The ability to deliver micro-specialization and tailored solutions to commercial insurers has made DUAЕs critically important partners.
- Insurers view maintaining and cultivating current DUAЕ relationships as more critical than developing new ones to optimize their growth plans.

The delegated underwriting authority enterprise (DUAЕ) market is on a path of sustained growth, with 70% of survey respondents expecting an increase in DUAЕ-sourced premiums. Carriers are prioritizing deepening their existing relationships over pursuing new partnerships or acquisitions. This approach reflects a high level of trust in the performance, scalability, and profitability of current DUAЕ collaborations, solidifying the segment's role as a critical component of the insurance value chain.

DUAЕs play a critical role in delivering micro-specialization throughout the commercial and personal lines markets. Their ability to focus on niche segments and complex risks positions them as indispensable partners for carriers seeking tailored solutions. This unique expertise is a primary driver of the segment's growth and sustainability, with carriers continuing to recognize and leverage this advantage.

The emphasis on balancing underwriting and the use of technology to better monitor risks demonstrates DUAЕs' growing maturity and its place in the overall insurance eco-system.

### Stability and Growth for the Market

A majority—70%—of respondents to AM Best's survey expressed optimism that they expect premiums sourced from DUAЕs to grow (**Exhibit 1**). Factors contributing to this expectation

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include carriers’ growing reliance on DUAEs to access niche markets, the expanding lines of business managed by DUAEs, and rising trust in the DUAE model due to the segment’s success the last several years. The growth expectations support AM Best’s Positive outlook on the segment, underscored by market stability and a high level of satisfaction with DUAEs. The model has proven resilient and added value amid external economic, climate, and social challenges.

Around 25% of respondents expect no significant change in their DUAE-sourced premium, which could indicate a mature relationship with existing DUAE partners whose capacity and premium levels are being optimized.

However, only 13% carriers (**Exhibit 2**) plan to partner with new DUAEs, and less than 10% (**Exhibit 3**) plan to acquire a DUAE. AM Best believes the focus on maintaining current partnerships reflects the belief carriers have in the scalability and performance of their existing DUAE arrangements. The survey results suggest a conservative approach to expanding DUAE relationships or establishing new partnerships. Maintaining existing relationships appears to be more important than an aggressive expansion strategy.

**Control, Profitability, and Diversification**

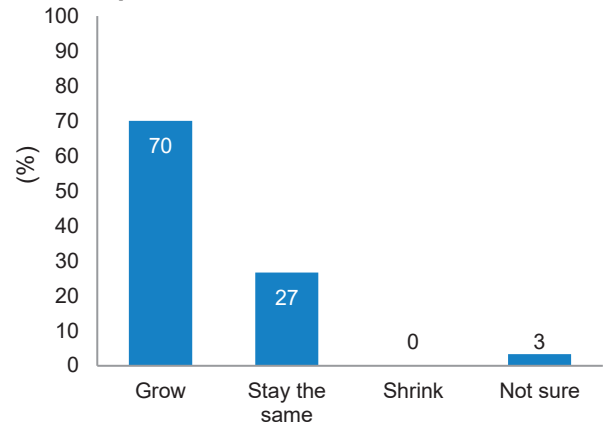
The survey findings reinforce the belief that carriers value the specialization and flexibility of the non-affiliated DUAE model (**Exhibit 4**). This model has been credited with cost management efficiencies while maximizing innovative capabilities in lines of business or key markets that a particular carrier may not have in-house.

**Micro-Specialization and Niche Expertise**

Survey results indicate that insurers place a high value on specialization and the expertise DUAEs provide, as 75% of respondents highlighted the market’s ability to serve niche segments with specialized expertise (**Exhibit 5**). Underwriting for niche or complex risks will be a key factor in the growth of the DUAE market.

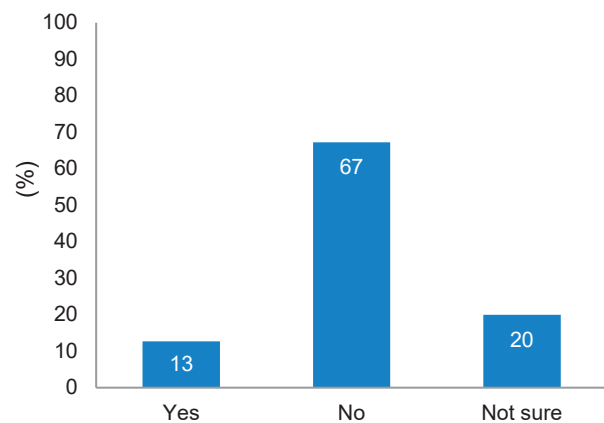
Insurers that wish to diversify their business portfolios by entering niche lines find these partnerships (31%) appealing because of the access to superior technology and the ability to adapt to emerging trends. Given

**Exhibit 1**  
Does your company expect its total DUAE-sourced premium to:



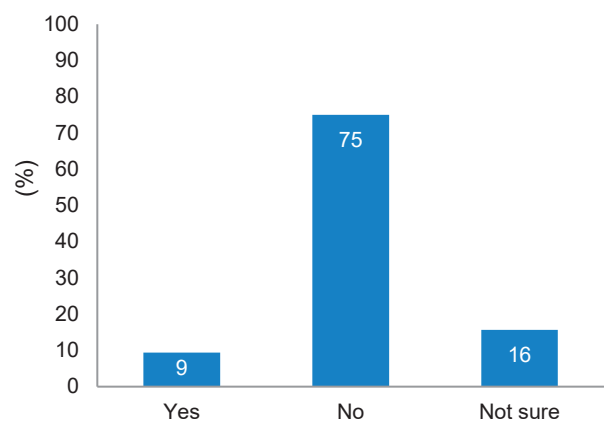
Source: AM Best data and research

**Exhibit 2**  
Does your organization plan to partner with new DUAEs within 18 months?



Source: AM Best data and research.

**Exhibit 3**  
Does your organization plan to acquire a DUAE within 18 months?



Source: AM Best data and research.

that insurers are effectively outsourcing their underwriting, they can benefit by avoiding the initial high expense ratios and take advantage of the scale and efficiencies DUAEs provide. Additionally, speed to market is critical, particularly in highly competitive segments, according to 33% of respondents.

A smaller number of respondents emphasized the value proposition that DUAEs provide through innovation and their ability to adapt to emerging risks.

**Carrier Commitment and Line of Business Trends**

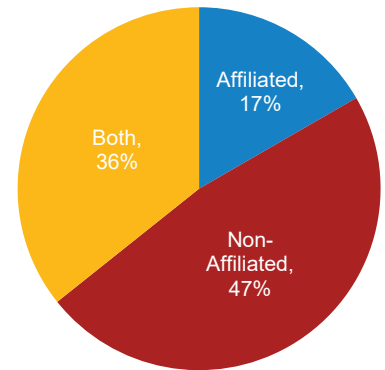
A large proportion of survey respondents (45%) provide capacity to a small number of DUAEs (**Exhibit 6**). A small proportion of organizations (18%) have expanded their capacity to between 10 and 24 DUAEs.

Just over 10% of respondents indicated that they provide capacity to between 25 and 49 DUAEs.

The number of partnerships is related to an insurer’s size; its history with DUAEs; diversification objectives; and cycle management. An insurer’s ability to conduct due diligence on its partners and trust their underwriting models is more critical than the number of partnerships they may have.

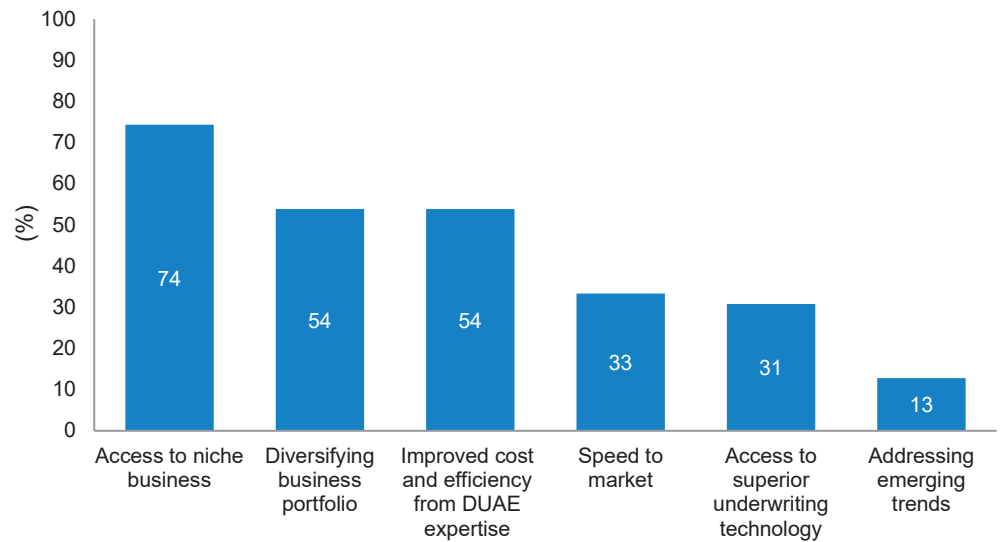
An analysis by line of business specifics shows that the property/casualty segment dominates the industry’s use of DUAEs. We also looked at line of business-specific variations in the personal and commercial lines segments (**Exhibit 7**)—the most common personal line of business DUAEs write is personal property, at 64%. The percentage for automobile, 35%, was notable given the widespread

**Exhibit 4**  
**What types of DUAEs do you use?**



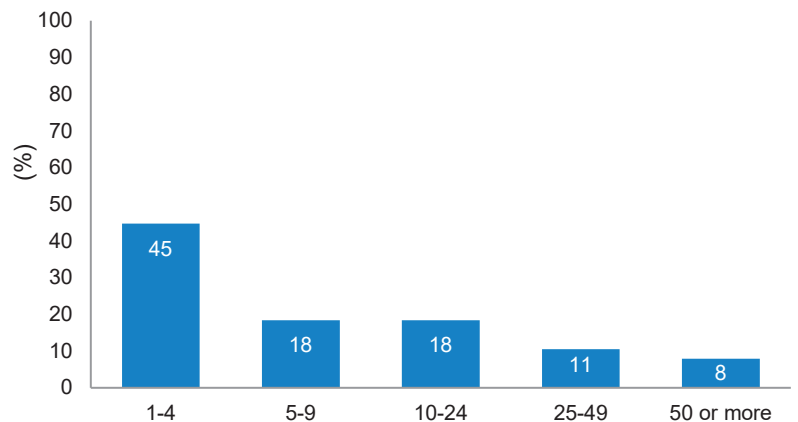
Percentages do not add up to 100 due to rounding. Source: AM Best data and research

**Exhibit 5**  
**What are your top reasons for using DUAEs? (Select all that apply.)**



Source: AM Best data and research

**Exhibit 6**  
**How many DUAEs does your organization provide capacity to?**

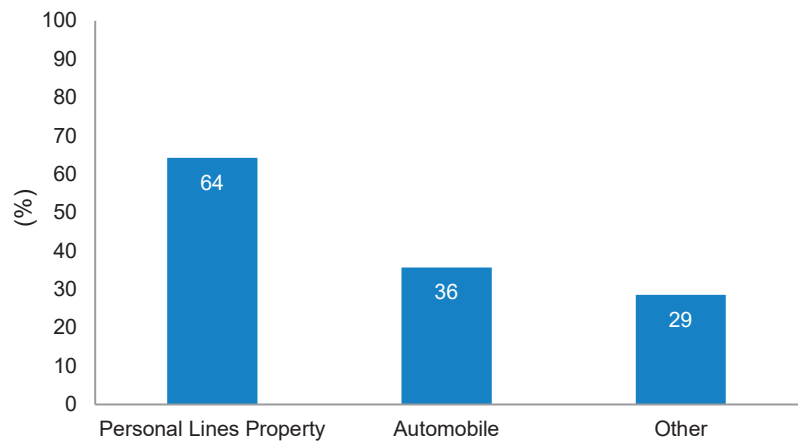


Source: AM Best data and research

demand and need for specialization catering to regional and high-risk markets such as the nonstandard auto market. The “other category” came to more than 28%, suggesting a diverse range of personal lines beyond property and auto, including more niche products for lines such as flood risk, specialty personal liability, or recreational vehicles.

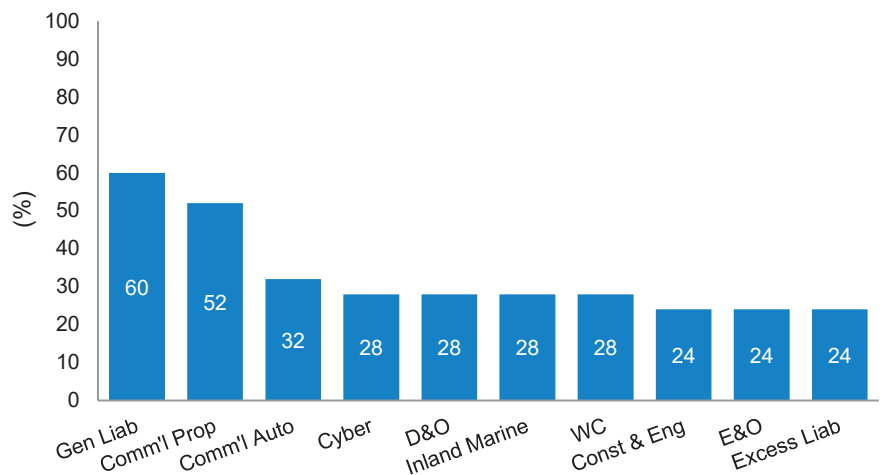
For commercial lines, DUAEs can provide coveted specialization for not only niche lines, but also for common lines (**Exhibit 8**), some underserved segments, even in lines of which carriers want to retain more control. General liability and commercial property are the top lines of business, with carriers delegating high-volume, standardized risks, particularly as part of commercial multiperil policies. General liability, at 60%, is the most frequently delegated line. Commercial property followed closely, with 52% of respondents stating the need for regional expertise and relationships to handle evolving climate-related issues. Trends are similar for lines such as commercial auto, cyber, D&O, flood, where the specialized underwriting expertise DUAEs provide is valued by insurers.

**Exhibit 7**  
Please indicate all personal lines of business that DUAEs write on behalf of your organization. (Check all that apply.)



Source: AM Best data and research

**Exhibit 8**  
Top Ten Commercial Lines of Business DUAEs Write



Source: AM Best data and research:

**Market Hesitations and Perceived Risks**

Of the respondents that do not use DUAEs, 75% selected loss of control over underwriting as a primary reason. A small proportion of respondents considers financial factors a barrier to using DUAEs. The cost of commissions may deter organizations with budget constraints or that may believe the added value does not justify the expense.

An overwhelming proportion of organizations (94%) said they do not plan to reduce capacity with DUAEs (**Exhibit 9**). There may be some targeted reductions in certain lines depending on an insurer’s strategy and its view of the business cycle. The ability to address evolving risks, particularly in complex lines such as cyber and commercial auto, is essential to improving profitability and may require

supplementing in-house expertise with the technical prowess of a DUAЕ.

According to the survey, the use of DUAЕs is slightly higher in the admitted market (59%) but the role DUAЕs play in the excess and surplus lines (E&S) market is also significant, with 41% of these respondents using DUAЕs (**Exhibit 10**). This is in line with recent research indicating that the E&S market offers more flexibility and allows for solutions tailored for unique and high-risk exposures.

**Core Services DUAЕs Provide to Partners**

DUAЕs provide their partners a variety of services (**Exhibit 11**), particularly the following:

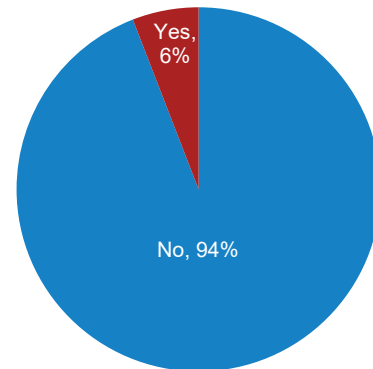
- Underwriting is the most frequently provided service, at 88%. Insurers heavily rely on DUAЕs to evaluate and price risks—DUAЕs are being entrusted to perform critical functions that affect a carrier’s bottom line.
- The second most frequently provided service is premium collection, at 84%. Premium collection is typically a high-volume, low-complexity task; outsourcing this function helps carriers streamline their operations and reduce overhead costs.
- Binding authority, which allows DUAЕs entities to issue policies for carriers, is the third most delegated service, at 81%, and is a core feature of the DUAЕ model.
- A majority of DUAЕs are also entrusted with managing claims-paying (72%) and claims-adjusting (69%), which allows insurers to enhance their customer service and manage claims more efficiently. The percentage for claims adjusting was lower than for claims paying, suggesting that some carriers are retaining the claims evaluation process while allowing DUAЕs to manage the disbursement process.
- Reserving and reinsurance placement services were less commonly delegated, as they are complex and more regulated. Carriers favor closer control of the financial reporting in these two critical areas. That there is some delegation demonstrates that some DUAЕs are capable of handling the more complex aspects of risk transfer.

**The Role of Technology**

Technology has become a cornerstone of DUAЕ operations. Many DUAЕs have beginnings as technology providers. These entities may more easily deploy capacity and rapidly respond to market changes, as they are not burdened by the legacy systems that many insurers grapple with. The growing adoption of data-driven underwriting and predictive analytics gives DUAЕs a competitive advantage.

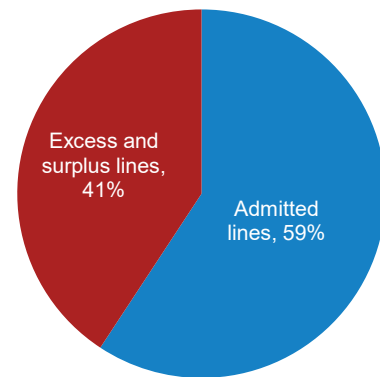
Many DUAЕs have automated routine processes such as quote generation, claims management, and policy issuance, which allows them to handle larger volumes with fewer resources while maintaining accuracy and consistency. Automation is a clear differentiator for DUAЕs, especially in niche markets where speed and precision can be critical. Carriers partnering with DUAЕs can benefit from lower

**Exhibit 9**  
Does your organization plan to reduce capacity in any of the lines of coverage?



Source: AM Best data and research

**Exhibit 10**  
Your use of DUAЕs is predominantly in:



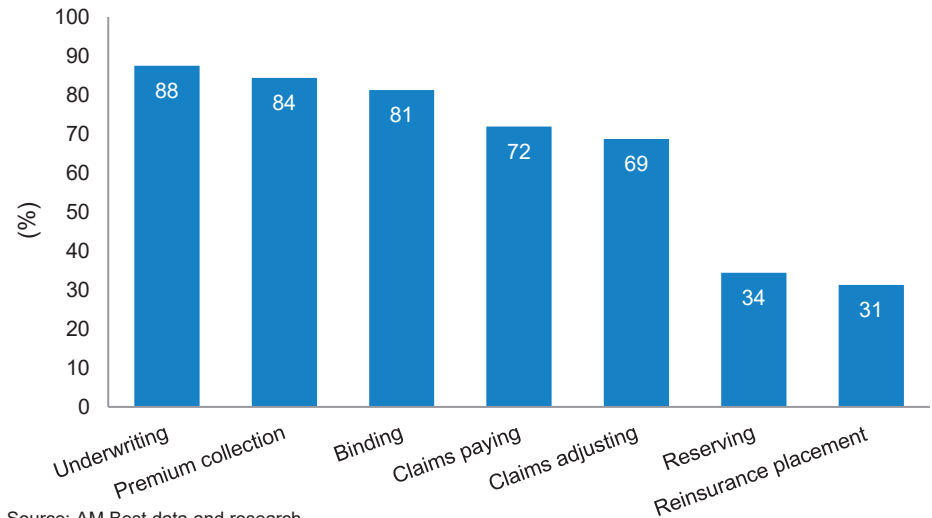
Source: AM Best data and research

operational costs and quicker turnaround times.

Predictive analytics and machine learning have become essential for DUAEs aiming to refine their underwriting accuracy and gain deeper insights into their niche specialties. There is a growing reliance on real-time data and advanced modeling to assess and price risks.

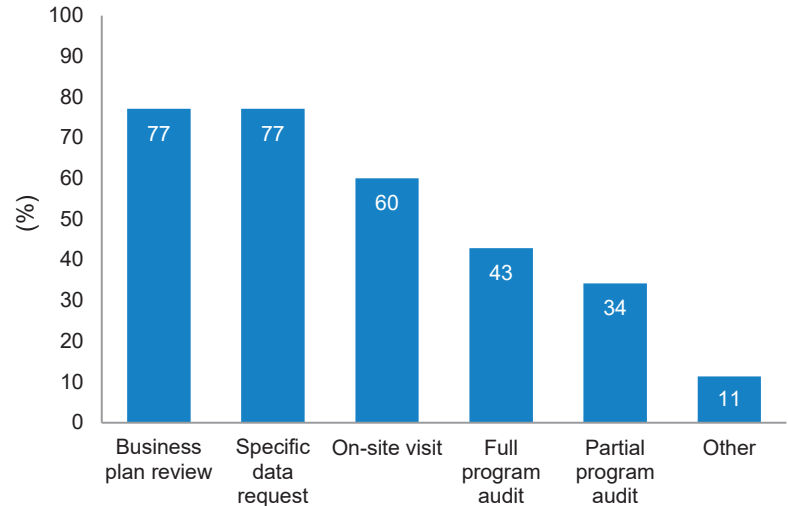
However, for carriers, an understanding of advanced technologies such as machine learning and artificial intelligence is critical, as insurers need to be able to explain pricing and rates to regulators, which are increasingly scrutinizing algorithms for hidden biases. Data privacy issues and inappropriate use of external data may become emerging risks. Carriers and DUAEs need to exercise caution, understand and respect the privacy laws of the jurisdiction they operate in. Although DUAEs may underwrite on behalf of insurers, the insurers are ultimately responsible for adhering to appropriate regulations on the use of data in underwriting and pricing, because they are the ones that have the ownership of the risks.

**Exhibit 11**  
**Select all applicable services that DUAEs provide to your organization? (Select all that apply)**



Source: AM Best data and research

**Exhibit 12**  
**Please indicate your organization’s due-diligence efforts, prior to partnering with DUAEs: (Select all that apply.)**



Source: AM Best data and research

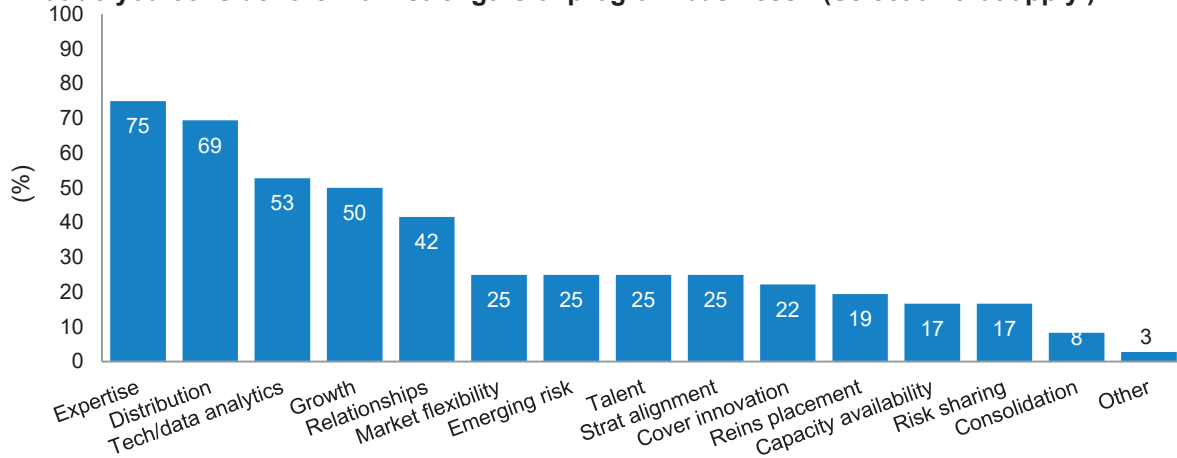
**Due Diligence Is Critical To Establishing Strong Partnerships**

Over 77% of carriers indicated that they review a DUAЕ’s business plan and strategy, to ensure alignment with their own organizational objectives (Exhibit 12). The same percentage of respondents indicated that they examine specific data to evaluate historical performance, risk exposure, and underwriting capability. Sixty percent of insurers physically verify their DUAЕ partners’ operations, a hands-on approach that builds trust and allows carriers to verify representations made during their due diligence.

A sizable number of organizations (43%) conduct a full comprehensive audit. This practice reflects a deeper commitment to validating a DUAЕ’s entire program beyond underwriting, to include



**Exhibit 13**  
**What do you consider the main strengths of program business? (Select all that apply.)**

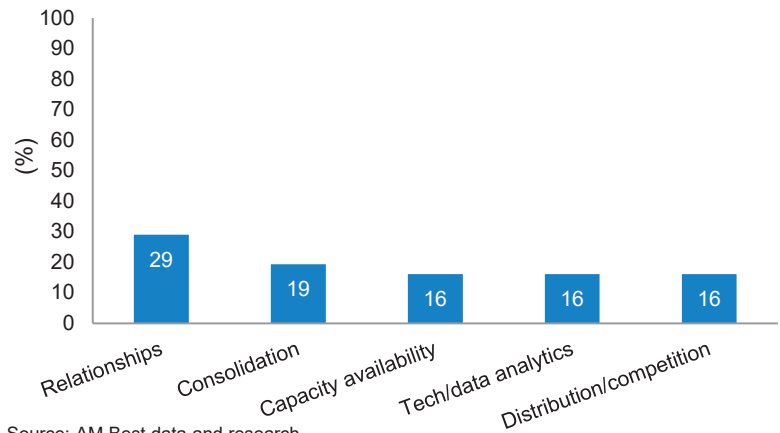


Source: AM Best data and research

claims management, regulatory, and compliance. Partial audits are more common, however, suggesting that some carriers are more focused on specific aspects of a DUAЕ’s operations (e.g., underwriting performance or claims handling).

Less than 12% of organizations use alternative or additional methods not specified in the survey, such as external consulting assessments, technology evaluations, or market performance analyses. The survey does show that carriers prioritize comprehensive due diligence to help mitigate risk associated with delegating authority. Insurers may follow a risk-based approach whereby due diligence efforts are proportional to the quantity and complexity of the risks being underwritten.

**Exhibit 14**  
**What do you consider the main weaknesses of program business? (Top Five)**



Source: AM Best data and research

**Opportunities for Market Expansion and Regulatory Readiness**

Expertise and specialized underwriting are the greatest strengths for program business, according to 75% of respondents (**Exhibit 13**). Distribution (69%), technology/data analytics (53%), growth (50%), and established relationships (42%) round out the top five strengths. Although underwriting expertise is paramount, other factors contribute to DUAЕs’ underwriting, whether distribution, technology, growth, or relationships. Other notable advantages include flexibility of the market (25%) and ability to address emerging risks (25%).

The importance of relationships between carriers and DUAЕs is underscored by the fact that nearly 30% of survey respondents considered a potential misalignment of objectives a weakness in program business. This emphasizes the importance of maintaining consistency in risk appetite, underwriting approach, and strategic goals to foster strong and effective partnerships (**Exhibit 14**). Industry consolidation was the second most frequent response for program business weakness, at 19%, apparently reflecting the fear that consolidation would limit competition and innovation.

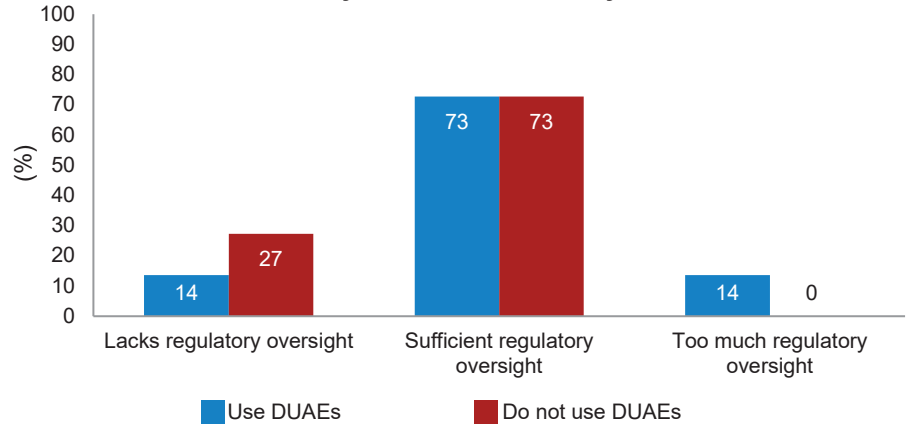
Consolidation leads to fewer options for insurers seeking program administrators or other DUAЕ partners. Consolidation with private equity firms that may look for exit strategies and dress DUAЕs for sale by focusing on top-line growth and efficiency may lead to risks outside a carrier’s appetite.

Capacity availability, technology/data analytics, and distribution/competition were all perceived as weaknesses (16%). These three factors could pose real challenges in a market where limited capacity constrains growth, while insurers may have doubts about the feasibility of using certain technologies for underwriting. Finally, a competitive market could dilute the value proposition of certain programs.

Nearly 73% of respondents stated that regulatory oversight over the DUAЕ segment is sufficient, indicating their confidence that oversight is striking the right balance between protecting stakeholders and enabling operational efficiency (**Exhibit 15**). Just over 18% believe regulatory oversight is insufficient, although this perception is higher among organizations that do not use DUAЕs (27%) than among those that do (14%). A minority of respondents feel that the regulatory environment is overly strict. None of the respondents expects DUAЕs to be less significant in the insurance value chain.

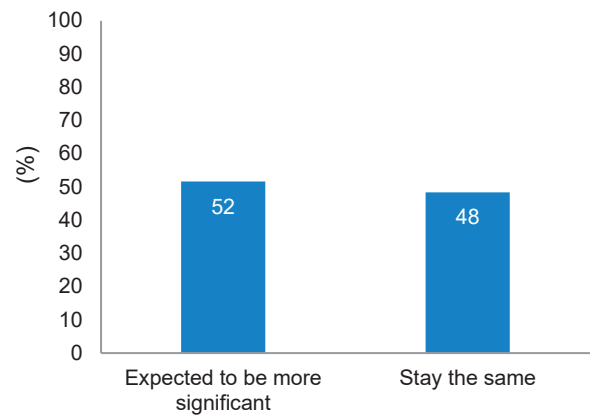
Survey results indicate that DUAЕs have proven their importance to the insurance value chain—supporting the Positive outlook for the segment. Nearly 52% of respondents expect the DUAЕ segment to become more significant, while 48% expect it to stay the same (**Exhibit 16**). The survey results are consistent with AM Best’s view that the DUAЕ segment has established itself as an important part of the insurance industry’s value chain and will remain so.

**Exhibit 15**  
**What is your organization’s perspective on the regulatory environment for DUAЕs, if you use DUAЕs or if you do not?**



Source: AM Best data and research

**Exhibit 16**  
**What is your expectation of the significance of DUAЕs in the insurance value chain?**



Source: AM Best data and research



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## BEST'S MARKET SEGMENT REPORT

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