

February 1, 2022

## Frequently Asked Questions: Best's Performance Assessment for Delegated Underwriting Authority Enterprises

The PA is a forward-looking, independent, and objective non-credit opinion of a DUAЕ's ability to perform services on behalf of its insurance partners

### Background

#### *What is a Delegated Underwriting Authority Enterprise (DUAЕ)?*

Delegated underwriting authority enterprise (DUAЕ) is a blanket term for managing general agents (MGAs), managing general underwriters (MGUs), coverholders, program administrators, program underwriters, underwriting agencies, direct authorizations, and appointed representatives.

These third-party entities are appointed by a (re)insurer, through contractual agreements, to perform underwriting, claims handling, or administrative functions on behalf of their carrier partners.

#### *What is Best's Performance Assessment (PA) for DUAЕs?*

The PA is AM Best's forward-looking, independent, and objective non-credit opinion of a DUAЕ's relative ability to perform services on behalf of its insurance partners.

#### *Is this equivalent to a financial strength rating?*

No. A financial strength rating evaluates a carrier's ability to pay claims. The PA evaluates a DUAЕ's ability to perform services on behalf of its carrier partners. Unlike a rating, a PA does not address creditworthiness.

#### *What factors is the assessment based on?*

AM Best uses quantitative and qualitative elements to assess the strengths and weaknesses of the DUAЕ. The assessment is based on five key factors:

- Underwriting Capabilities
- Governance and Internal Controls
- Financial Condition
- Organizational Talent
- Depth and Breadth of Relationships

#### *Does this result in a score?*

Yes. Points are given for each of the five assessment factors. The sum of those points determines the DUAЕ's performance assessment:

- PA-1 (Exceptional) requires between 34 and 40 points.
- PA-2 (Excellent) requires between 27 and 33 points.
- PA-3 (Strong) requires between 20 and 26 points.
- PA-4 (Fair) requires between 13 and 19 points.
- PA-5 (Weak) is for up to 12 points.

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*Why did AM Best develop this performance assessment?*

AM Best developed this methodology because DUAEs are becoming an increasingly important part of the insurance ecosystem. Given the increase in premiums generated by DUAEs, AM Best believes independent assessments will add value to the marketplace, by providing a tool to differentiate among these organizations.

*What is the value of a PA to the DUAEE?*

As an independent non-credit opinion, the PA provides a global benchmark of a DUAEE's ability to service business partners, allowing the DUAEE to differentiate itself in the marketplace. DUAEEs can use the PA as additional information for other parties—investors, venture capitalists, and carriers. In turn, these parties can use the PA as a tool for evaluating potential partners. (Re)insurers may also find it useful when choosing a DUAEE partner.

AM Best believes that the PA will bring greater transparency to the diverse and growing market of DUAEEs, as it offers a global benchmark across all types of delegated authority institutions. Additionally, some DUAEEs have noted that they could use a PA in discussions with regulators regarding licensing or jurisdictional authorization.

*Did AM Best consult with insurers and reinsurers on the PA?*

Yes. AM Best engaged with the industry during the “Request for Comment” period following the release of its draft PA methodology for DUAEEs in March 2021. AM Best gathered feedback from a variety of companies across markets: (re)insurance carriers, associations, MGAs, brokers, consultants, and regulators.

*Will this replace the due diligence carriers perform when selecting DUAEE partners?*

Based on the feedback that we received, insurance carriers view the PA as an additional piece of useful information, but we do not expect that it will replace (re)insurance carriers' existing due diligence. Market participants have noted that some carriers may use the PA as part of their selection/approval process or to impose minimum thresholds or requirements.

**Has AM Best formally responded to questions received during the “Request for Comment” period?**

Yes. AM Best received 24 comments through its methodology inbox during the public consultation period. Those questions, along with AM Best's responses, are published [here](#).

**Availability***When did PAs become available to DUAEEs?*

The PAs became available on February 1, 2022, when the methodology was released for use.

*Where can I find the methodology for the PA for DUAEEs?*

The PA for DUAEE methodology can be found on AM Best's website on the [Assessment Methodology page](#).

*When will the first PAs be completed?*

We expect to release the first performance assessments during the first quarter of 2022.

*In what region(s) are PAs available?*

PAs are available globally, through AM Best's offices worldwide.

*Is this only for the property/casualty segment?*

No. This methodology can be applied to DUAEEs operating in any market segment.

*What is the timeline for full coverage of the market?*

There is no timeline set for full market coverage. Coverage will be driven by the level of DUAЕ interest in obtaining PAs. AM Best expects that coverage will grow steadily over time, particularly in markets where DUAEs are very active.

**Process and Privacy***Does a DUAЕ request a PA or does a carrier request a PA for a DUAЕ?*

The DUAЕ will request the PA, and the contractual agreement will be between the DUAЕ and AM Best.

*Whom should a DUAЕ contact to discuss or initiate a PA?*

For information on engagement, please speak directly with [AM Best's Business Development Team](#).

*How long does the assessment process take?*

The time required for review will be commensurate with and appropriate to the complexity of the organization being assessed. The timeframe for most PAs will likely be similar to that required for a new insurance rating, which is typically 8 to 12 weeks from start to finish.

*What level of commitment is required from the DUAЕ during this process?*

To ensure the credibility of the PA, AM Best expects a certain level of disclosure from all DUAEs and engagement with a DUAЕ's senior management to assess the five components.

*How often will a PA be re-evaluated?*

Once a PA is assigned, the DUAЕ will be subject to ongoing monitoring and annual reviews in accordance with AM Best's surveillance procedures. Any material change in the DUAЕ's operations or operating environment may trigger an interim review and referral to an Assessment Committee for deliberation.

*How does AM Best use and protect the information provided during the assessment process?*

AM Best is a regulated credit rating agency. In accordance with regulatory requirements, AM Best maintains and enforces policies, procedures, and controls to protect confidential information from fraud, theft, misuse, or inadvertent disclosure. These policies, in part, state that AM Best and all employees shall use confidential information only for purposes related to AM Best's business activities (any other use is strictly prohibited), and actively protect and safeguard all confidential information from disclosure to any third parties, unless disclosure is required by applicable law or regulation.

**Access to Results***Can a DUAЕ choose to have a private PA?*

Yes. At the end of the process, the DUAЕ has the option to either make the PA public or maintain it on a private basis. As with private credit ratings, a private PA will only be disseminated to the DUAЕ requesting it.

*If a DUAЕ chooses a public assessment, what information will be made publicly available?*

For DUAEs that choose to make their PA public, AM Best will publish a press release and a PA report. The press release will summarize the five components used in the analysis to arrive at the DUAЕ's PA.

The PA report will include the PA, an outlook for the PA, and an explanation of the five components and relevant elements.

*Will AM Best provide additional information about the sub-assessments?*

Yes. The PA report will explain in detail the sub-assessments that have the greatest impact on the five components of the PA, to provide greater insight for the reader.

*Can a DUAЕ decide to withdraw its public PA?*

Yes. Should a DUAЕ decide to withdraw a public PA, AM Best will provide a final public PA on the DUAЕ before the PA is withdrawn.

*Will PAs be accessed by subscription or open without subscription?*

AM Best will make PAs available without a subscription.

*Does AM Best have guidelines for use of a PA?*

Yes. The Guide to Proper Use of Best's Ratings & Assessments can be found [here](#).

*Is there a BestMark available for the PA for DUAEs?*

AM Best has created a BestMark icon for DUAEs to highlight their PAs. The BestMark shows customer and risk carriers that a DUAЕ has undergone AM Best's rigorous assessment process.

DUAEs can use BestMark in traditional and digital marketing materials such as websites, print and online advertising, conference banners and stands, brochures, social media, email signatures, and business cards. It is available in black, blue, white, and gold to complement any style of marketing collateral.

*How can a DUAЕ obtain a BestMark?*

DUAEs can obtain a BestMark [here](#).

## **Audience and Approach**

*If a rated insurance carrier owns an MGA, will they need to get the PA?*

No. There is no requirement for any entity to obtain a PA; however, a carrier can choose to request a PA.

*Will this be an enterprise assessment or program by program?*

AM Best's assessment will typically be performed at the legal entity level. When multiple legal entities are involved, the assessment will be performed for each entity individually. However, synergies among members of the enterprise may be recognized in the analysis of the key assessment factors. In some cases, significant commonalities or strategic rationales may be revealed in the legal entity assessments, which may lead AM Best to take a group view of a set of DUAEs.

*How will AM Best approach DUAEs that are part of a group?*

When significant commonalities or strategic approaches lead us to take a group view for the assessment (as mentioned above), we will assign a "g" (signifying group) affiliation code. Below are examples of commonalities among the legal entities that would make a DUAЕ eligible for the "g" affiliation code:

- The DUAEs share the same management team
- A DUAЕ legal entity is necessary for licensing
- The DUAЕ is material to the group's operations and strategy
- The DUAЕ's performance is generally consistent with that of other group members
- The DUAEs have common underwriting practices or common products
- The DUAEs' operations are fully integrated, making it difficult to operate independently
- Each DUAЕ is readily identifiable with other members of the group

*Does this PA process discriminate against smaller DUAEs?*

No. There is no size threshold when assigning a PA. A DUAE will be assessed relative to the complexity of the enterprise.

AM Best recognizes that DUAEs can vary substantially within and across markets and will not penalize smaller DUAEs in the PA analysis. The DUAE will be assessed on its merits, with due consideration given to the size and complexity of its operations. AM Best has vast experience rating insurance companies that vary in size and complexity and will draw on that experience when assigning PAs to DUAEs—regardless of size.

*How will AM Best treat newer DUAEs, particularly insurtech start-ups?*

AM Best can assess newly formed DUAEs, subject to additional conditions for the analysis, as detailed in the [methodology](#). Newer DUAEs will face additional documentation requirements due to the lack of historical data available.

*How will AM Best benchmark PAs?*

AM Best will be requesting consistent financial information from all DUAEs through a Supplementary Performance Assessment Questionnaire, which can be used for benchmarking. Benchmarking reflects general results, not individual DUAE data.

## **DUAE and Carrier Relationships**

*What impact will the PA for DUAEs have on the rating of an insurance carrier?*

AM Best does not expect that the PA for a DUAE will impact the rating of an insurance carrier, as any materially relevant information on a DUAE should, in principle, already be factored into the insurance carrier's issuer credit rating (please refer to [Best's Credit Rating Methodology](#)).

*Will carriers be interviewed as part of the PA process?*

No. AM Best expects interaction with the DUAE's senior management but not with other associated parties in most cases. When appropriate, AM Best expects to use third-party audits, contract details, and other information to formulate a more accurate assessment of a DUAE.

*Will the PA add transparency to carrier ratings?*

The expectation is that the PA for DUAE will add transparency to the market and support a well-functioning insurance sector. However, insurance credit ratings and PAs measure different things. The issuer credit rating (ICR) assigned to insurance carriers is an independent opinion of an entity's ability to meet its ongoing financial obligations. The PA for a DUAE is an independent non-credit opinion of the DUAE's ability to service its business partners.

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**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).

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