



**Stephen DiCenso**  
<stephen.dicenso@milliman.com>  
03/17/2021 02:19 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>  
cc  
Subject PA for DUEAs/MGAs

Hello –

I was reading about A.M. Best’s plan for Performance Assessments for DUEA/MGAs and had one series of related questions: will A.M. Best be performing its own independent actuarial analysis of historical and projected profitability of each of the DUEA/MGA’s programs? And/or will it leverage / rely on outsourced actuarial work already performed for the DUEA/MGA? Is there a best practice standard by which you will evaluate the DUEA/MGA in performing these types of actuarial pricing/profitability assessments (e.g.. frequency at which they are performed; level of sophistication; etc.)?

Thanks,  
Steve

**Stephen R. DiCenso**, FCAS, MAAA  
Principal and Consulting Actuary

**Milliman**

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\*\*\*\*\*



John Kassar <[john@sageins.com](mailto:john@sageins.com)>

03/18/2021 02:37 PM

To "methodology.commentary@ambest.com"  
<[methodology.commentary@ambest.com](mailto:methodology.commentary@ambest.com)>

cc

Subject DUAE Rating

If a DUAE was to go through the process of receiving a rating however did not like the rating received will these be published to the public regardless of the DUAE's stance on the rating?

John Kassar  
1298 Prospect Street #1U  
La Jolla, CA 92037  
M: 858.775.7510  
O: 1.833.724.3467





**Charles Manchester**  
<charles.manchester@manchesterunderwriting.com>

03/20/2021 03:42 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject FW: Draft Methodology for the Performance Assessment for Delegated Underwriting Authority Enterprises

This is very comprehensive. I fully support the concept of differentiating the good from the bad. MGAs want it and insurers want it. As you know, there are difficulties in making it happen reliably.

I don't really have much feedback on the content of the draft methodology as it is clearly well thought out. My specific points remain:

- What will it cost? Many MGAs are small businesses and won't have much in the way of cash to pay for it.
- The resource involved. It's a hard market for MGAs right now and the time investment here could be huge at a time when everybody is stretched.
- I speak to a lot of MGAs. They all tell me that the business they write is very profitable. On digging deeper, many don't even understand the concept of triangulations, IBNR and how long tail business develops over time. They can't all be making money. Many MGAs probably don't know their underwriting results or at least don't understand them. There is a whole spectrum of MGAs from those that add value through specialised distribution through to the virtual insurer and those that focus on the distribution will have little concept of the underwriting. You are going to need to dig very deep in many cases.
- There's a new breed of capacity provider that fronts for the R/I market. They seem to be attracting the MGAs that many perceive to be of lower quality. If that is true, they're going to be less stable and probably more robust on claims as it's not their own money they're spending. Particularly so if they have loss caps on their quota share arrangements – I know of one UK MGA that caused its carrier a 9 figure loss – the fronting fee isn't going to cover that if there's a loss cap or if their reinsurers aren't the best. The MGAs aren't going to be able to give you detailed information on these insurers' reinsurance arrangements – it won't matter if they're writing for AXA or Zurich or the like but it will matter for a much smaller carrier.

Please do keep me informed of developments.

All the best.

Regards,

Charles Manchester  
Chief Executive Officer  
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Mobile: +44(0) 7836 744742

Email: [charles.manchester@manchesterunderwriting.com](mailto:charles.manchester@manchesterunderwriting.com)  
[www.manchesterunderwriting.com](http://www.manchesterunderwriting.com)

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**From:** William Mills <[William.Mills@ambest.com](mailto:William.Mills@ambest.com)>

**Sent:** 15 March 2021 18:56

**To:** Charles Manchester <[charles.manchester@manchesterunderwriting.com](mailto:charles.manchester@manchesterunderwriting.com)>

**Subject:** FW: Draft Methodology for the Performance Assessment for Delegated Underwriting Authority Enterprises

Dear Charles,

Apologies for the typo in the email address.

We would very much appreciate your feedback.

Best regards,

William



**William Mills**

Director - EMEA

AM Best - Rating Services

Market Development

6th Floor, 12 Arthur Street, London EC4R 9AB, UK

Tel: +44 20 7397 0323 | Mobile: +44 7710 967283

**From:** William Mills

**Sent:** 15 March 2021 18:42

**To:** [charles.manchester@manchesterunderwriting.com](mailto:charles.manchester@manchesterunderwriting.com); [michael.keating@mgaa.co.uk](mailto:michael.keating@mgaa.co.uk)

**Cc:** Nick Charteris-Black <[Nick.Charteris-Black@ambest.com](mailto:Nick.Charteris-Black@ambest.com)>

**Subject:** Draft Methodology for the Performance Assessment for Delegated Underwriting Authority Enterprises

Dear Charles and Michael,

I hope you are keeping well despite all the challenges of Lockdown 3.

After our VC call back in October, we promised to send you the draft methodology when it was finalised. I'm now pleased to attach a link to the draft commentary and a press release.

We would very much welcome feedback on the draft methodology by May 3<sup>rd</sup>.

Please do let me know if you have any questions

Many thanks in advance & best regards,

[Assessment Methodology \(ambest.com\)](http://www.ambest.com)

William



**William Mills**

Director - EMEA  
AM Best - Rating Services  
Market Development  
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<director@delauth.com>

03/20/2021 06:45 PM

To <Scott.Ryrie@ambest.com>,  
<methodology.commentary@ambest.com>

cc

Subject Comments on Draft Methodology for  
AM Best Best's Performance  
Assessment for Delegated  
Underwriting Authority Enterprises

Good morning

I am writing to you in my position as Chair of the Delegated Authority Reviewers Association, an international organisation whose members carry out audits of delegated authority entities on behalf of Lloyd's underwriters and other insurers.

We would like to make available to our members on our website a copy of your correspondence requesting comments from market participants in the insurance industry and other interested parties on the draft your methodology for "Best's Performance Assessment" (Best's PA) for Delegated Underwriting Authority Enterprises (DUAEs).

Could you please let us know whether you agree to us sharing your correspondence in this way.

Kind regards

Lorraine Calway  
On behalf of:



[director@delauth.com](mailto:director@delauth.com)  
[www.delauth.com](http://www.delauth.com)

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Russell Myers <RussellM@mirabilis.net>

03/23/2021 07:44 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Comments on Draft Methodology for AM Best

The difficulty with AM Best is that they are not allowed to issue public ratings on SA businesses – as the FSCA only allows credit rating agencies that have local representative offices in SA to issue public ratings.

Your comments and or plans regarding this limiting aspect.

Regards  
Russell Myers



Mirabilis is an authorised FSP (28190)

**Russell Myers**

Founder

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"Beaudoin, Kelly M (Global Specialty)"  
<Kelly.Beaudoin@thehartford.com>

03/23/2021 06:27 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Delegated Authority Performance Assessment [CONFIDENTIAL]  
(Encrypted Delivery)

Hi,

I lead the Strategy & Execution team for our Specialty Division at The Hartford and recently saw the announcement of the AM Best Delegated Authority Performance Assessment work. It seems AM Best is taking public commentary until early May and I have several leaders on my end who are interested in jumping on a call to discuss this further and provide commentary in return.

If you can help facilitate this that would be great. Please feel free to give me a call to discuss further.

Thanks,  
Kelly

**Kelly Beaudoin**  
Head of Strategy & Execution, Global Specialty

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Hartford, Connecticut 06155  
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DAVID WANSBROUGH-JONES  
<wansbroughjones@msn.com>

03/25/2021 10:12 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Comments on Draft Methodology for  
AM Best

## RATING METHODOLOGY FOR MGA'S

Dear Sirs,

Many thanks for the chance to comment.

The words 'horse' and 'bolted' come to mind, but better late than never and since the present cycle seems to favour MGA's, for reasons I do not understand, one can say 'better late than never!'

Names like Sphere Drake, Trimark, Arpel, VJW, Ridgwell Fox, Gallon, Truss, Weavers come to mind, some causing more of a shudder than others; what a good initiative that someone is going to try to clean out the Augean Stables! I am sure that my points will have been covered in your long draft, and they refer principally to London market type operations, but I would make the following brief points:

- I think that I am right in saying that neither pricing nor reserving actuaries are a regulatory requirement. Shocking!
- Are MGA's subjected to any regulation in UK or elsewhere, other than submission of reports and accounts? Unregulated, I think.
- A thorough analysis of the contract between carrier and agent is a must. Always was, even in the dim, distant past, though were possibly misunderstood.
- Compliance was never a strong point as the goal was for the agent to clean up from his commission and so good admin staff were surplus to requirements.
- Remuneration and profit commission compared to commission in the total.
- Key man and how tied in. How is he tied in to face his responsibilities?
- Responsibility and decisions in respect of any run – off? Are they made clear

to carrier and agent? No incentive to run business off properly. Who then owns and manages the agency?

- The goal of carriers may be very different. Some carriers may want to mark time and not lose money so as not to lose their underwriting capacity (as in certain Lloyd's cases) and others may require a higher profit than feasible.
- Thus, carriers should also be interviewed.
- Added value in a crowded market is usually price – cheap.

If I have reiterated your points, I am sorry, and I am sure there are many more. I do feel that a few insurance and especially reinsurance archeologists will be needed so as to see past mistakes made and those waiting to happen as well as those that are happening right now and noone knows. It's a good project – good luck!

With best regards,

David Wansbrough-Jones  
Reinsurance Consultant

8, Rusholme Road,  
Putney,  
London SW15 3JZ

Skype: davidwansbroughjones

Telephone: +44 (0) 7710 406 254



Jeff Turner <j.turner@miramaruw.co.uk>

03/30/2021 01:08 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject RE: MGAs - AM Best Requests  
Comments on Draft Methodology:  
Best's Performance Assessment for  
Delegated Underwriting Authority  
Enterprises

Have reviewed the information provided and would state that whilst the methodology used looks to have covered all the aspects one would consider necessary, I have concerns with regards to the costs for small businesses (particularly small independent MGA's). Do you have any thoughts at this time in terms of cost at this time?

Secondly there needs to be consideration given, based on the size of the DUAE in question – as many smaller companies outsource various aspects to third party companies i.e. HR, compliance, IT etc – so should not be penalised for not having this in house. I would go further and state that many small companies work closely with the insurers actuaries to review and analyse the performance of the account – so again they should not be penalised, indeed they should be praised for being so transparent with their insurers!

The reason this is critical is that some of the best (and most profitable MGA's for insurers) are the small independent companies – so would not like to see a point where they are not being compared fairly against a large corporate DUAE.

Hope this assists.

## Jeff Turner

### Chief Executive Officer

Miramar Underwriting Limited  
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☎ 07976 533550

✉ j.turner@miramaruw.co.uk

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**From:** Nick Charteris-Black [mailto:emea.ratings@ambest.com]

**Sent:** 17 March 2021 09:28

**To:** Jeff Turner <j.turner@miramaruw.co.uk>

**Subject:** MGAs - AM Best Requests Comments on Draft Methodology: Best's Performance Assessment for Delegated Underwriting Authority Enterprises

Dear Jeff,

## **AM Best Requests Comments on Draft Methodology: Best's Performance Assessment for Delegated Underwriting Authority Enterprises**

**AM Best** is requesting comments from market participants in the insurance industry and other interested parties on the draft of a new methodology, "Best's Performance Assessment" (Best's PA) for Delegated Underwriting Authority Enterprises (DUAEs).

In this draft methodology, AM Best introduces the Best's PA, which provides a framework for differentiating among DUAEs in the insurance industry. The Best's PA is a forward-looking, independent and objective non-credit opinion.

AM Best defines DUAEs as a blanket term to capture managing general agents (MGAs), managing general underwriters, coverholders, program administrators, program underwriters, underwriting agencies, direct authorizations and appointed representatives.

The PA for DUAEs Methodology focuses on AM Best's approach to reviewing qualitative and quantitative factors to determine a DUAE's relative ability to perform services on behalf of its insurance partners. The PA, as outlined in the methodology, includes an in-depth assessment of the following key components: Underwriting Capabilities, Governance and Internal Controls, Financial Condition, Organizational Talent, and Depth and Breadth of Relationships. The PA is an aggregation of the sub-assessment assigned to each component.

AM Best believes that DUAEs are an increasingly important part of the insurance ecosystem, with a higher proportion of insurance revenue being generated through DUAEs in many global regions. The presence and significance of DUAEs continue to rise and their decisions could financially impact their insurance partners. Assessing DUAEs will provide transparency to the market and will inform the industry of a DUAE's ability to perform services on behalf of its insurance partners.

The draft methodology details the information that will be necessary for AM Best to evaluate the aforementioned key assessment components.

This draft methodology is available at <http://www.ambest.com/ratings/assessmentMethodology.html>.

A video discussion about the new methodology with Maura McGuigan, director, Credit Rating Criteria, and Greg Williams, senior director, P/C, Life & Annuity Composite, also is available at <http://www.ambest.com/v.asp?v=ambmgcriteria321>.

Written comments should be submitted by e-mail to [methodology.commentary@ambest.com](mailto:methodology.commentary@ambest.com) no later than May 3, 2021. When submitting comments to the methodology in-box, commenters have the option of requesting anonymity, but not confidentiality. All comments received through the methodology in-box that do not request anonymous treatment will generally be published in their entirety, with attribution to the author/sender at the time of implementation of the methodology.

Regards,

**Nick Charteris-Black**

Managing Director - EMEA  
AM Best - Rating Services  
Market Development  
[Nick.Charteris-Black@ambest.com](mailto:Nick.Charteris-Black@ambest.com)

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Mark Birrell <Mark.Birrell@Castelmga.com>

04/01/2021 04:40 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc "Nick.Charteris-Black@ambest.com"  
<Nick.Charteris-Black@ambest.com>, Edward Yost  
<Edward.Yost@castelmga.com>

Subject Comments on Draft Methodology for AM Best

Dear Nick,

Many thanks for your announcement regarding Best's Performance Assessment for Delegated Underwriting Authority Enterprises.

We have carried out an internal review of the proposed methodology and are happy with the scope of the assessment criteria that you will be employing. We agree with your view that business models in this sector are diverse but feel that the individual components that will make up your review are suitably broad enough to cover the majority of firms.

With the above in mind, we have no additional feedback and welcome this initiative. We are, however, interested in the planned implementation and engagement timelines. We would be grateful if you could provide some guidance on the next steps after the consultation period closes on the 3rd May.

We look forward to working with you on this.

Regards,

Mark

**Mark Birrell**  
**CEO, Castel Underwriting Agencies Limited**

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[REDACTED]  
04/13/2021 12:05 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Best's Performance Assessment for Delegated Underwriting Authority Enterprises

Please keep comments/questions anonymous.

Greetings AM Best. I work for an insurance carrier that manages the oversight of DUAEs and have a few questions regarding AM Best's PA for DUAEs.

What entity is the Performance Assessment for DUAE requested by, or in other words, does the DUAE have to request the PA or can a carrier request the PA be performed on the DUAE? What will/is the cost of the PA to have it performed on the DUAE? Would there be an agreement that would need to be signed by the DUAE should the carrier request the PA be performed?

Thank you.

[REDACTED]  
[REDACTED]



Hewitt Carrie <Carrie.Hewitt@rqih.com>

04/29/2021 04:42 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Comments on Draft Methodology for AM Best

1 attachment



R&Q Response DUAE 29042021.pdf

Please see attached comments from the R&Q group

Regards  
Carrie

**Carrie Hewitt**

**Group Chief Actuary**

Randall & Quilter Investment Holdings Ltd

71 Fenchurch Street, EC3M 4BS

Direct Dial +44 (0) 20 7977 0942

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## **AM Best Proposal for Performance Assessment for Delegated Underwriting Authority Enterprises - R&Q Feedback**

We have read the proposal from AM Best to offer Performance Assessment for Delegated Underwriting Authority Enterprises (for simplicity, we refer to these as MGAs throughout our responses). We are providing feedback on the proposal and have the following comments and questions.

### **R&Q Program Management Overview**

Randall and Quilter Investment Holdings is a key player in the General Insurance program management market. We have three licensed and rated carriers under the brand name Accredited. We are the only operator in the global program market to offer capacity to MGAs in the US (both admitted and non-admitted), Europe and the UK.

In program management, we currently manage more than 48 programs. We have credibility with MGAs and reinsurers as a reliable partner. Furthermore, R&Q's ability to move programs between the US E&S or Admitted markets or to assist MGAs across Europe enhances our reputation as a solutions provider to our clients. This allows us the opportunity to create new, and strengthen existing, important strategic relationships with trans-Atlantic MGAs while also creating broader reinsurance support for our clients.

### **Practical Issues**

From a practical perspective, how will the service be offered and rolled out around the market. Specifically:

- Will it be on a voluntary first-come-first-served basis or will it be offered first to certain markets (i.e. US E&S) or have you already identified some MGA who will pilot?
- Will the assessments be region or line of business specific or will they apply to all of the MGAs international business?
- Are you able to provide an indication of the costs or fees and will these be expected to be payable annually?
- If an MGA chooses to have their assessment as public, what kind of information will be made publicly available?
- If a number of our own MGA partners request rating assessments, will the outcome of these be reflected in our own rating?

### **Criteria**

We believe that the criteria that you have selected are appropriate:

- Underwriting Capabilities
- Governance and Internal Controls
- Financial Condition

- Organizational Talent
- Depth and Breadth of Relationships.

We also think that your proposed weighting is acceptable, although we note that given your scoring it will be challenging for any MGAs to achieve the exceptional or excellent assessment categories. Do you have a view of the proportion of applicants which might be expected to achieve different scores based on your wider market insight and insurer rating experience?

Some of the scoring criteria are quite vague and open to individual interpretation. Will the scoring criteria be made more specific? For example, what does timely manner mean? How will you assess what is appropriate for a certain line of business or territory?

### **Underwriting Capabilities**

Clearly this is of fundamental importance to the success of an MGA. However, each MGA is unique. Some specifics which we believe you should consider as part of your assessment are:

- How would Best take into consideration the experienced Underwriter in a start-up MGA. Many of the opportunities we see come through an experienced underwriter leaving the employment of a large multi-national or a Lloyd's syndicate after many years of service and starting afresh at an existing or new MGA. Given that the underwriter will not be permitted (in most instances) to keep detailed historical information on the portfolio he/she has written for several years but is known as an expert or leader in their field, how would Best assess the strength of the underwriter?
- Will the move of an individual Underwriter move the assessment scores of the old and new enterprise? If there is a significant shift in the underwriting staff, i.e. lead underwriter resigns and moves to another MGA, will AM Best develop a re-evaluation criteria within a specified time period for the impacted MGAs?
- There should also be consideration for the Underwriter's ability to control and move an already performing book of business.
- Some DUAE perform claims and/or underwriting. How well claims are handled by an MGA is a key performance indicator for us. Many have their own claims team and handle all/some types of claims themselves, others will use a TPA for all or part of the process. There is no black and white 'must have' in this scenario. In many cases we prefer to see real expertise in-house but can be very comfortable with some elements being outsourced to a specialist provider. In either instance we prefer to see a claims manager within the MGA set up so as to ensure we have a consistent and accessible focal point. How would Best assess these variations of claims handling?
- Consideration needs to be taken of the Underwriting appetite considering the products limits and complexity. MGA's which require high limits, distribute products that have a high level of complexity to underwrite (surety, credit insurance, financial lines, commercial lines), distribute products with a historical volatile performance, or distribute brand new products might be limited to find replacement capacity when needed. In this respect diversification of income stream via different products could be considered as a positive to maintain a stable income.
- How will the number and variety of products be considered within the assessment?

## **Governance and Internal Controls**

Clearly this is an important topic, however the bespoke nature of MGAs will make it difficult to compare different entities.

- In today's business environment the need for technology/cyber controls is an imperative. Formalised controls, which are monitored constantly, to not only ensure the sensitive information within an MGA environment but to guard against network attack. We believe it should feed up into some type of ERM protocol.
- Remuneration structure. What is the expectation of best practice here? The aim here is to understand the overall remuneration structure of the MGA on the side of the business developers and underwriters. Is there skin in the game or is there no down-side in case of bad performance of the book. Is the bonus structure of the key people aligned with the remuneration of the binder agreements?
- International MGAs (i.e. UK MGAs writing in EU) need to demonstrate their understanding the market. MGA's that deal with cross border business (policyholders in different territories) require a different set-up to deal with the different complexities to be compliant with local requirements and general good provisions. This can require investment in people, subsidiaries in different territories and is a step often underestimated by smaller MGA's.
- Parental support for services. Some MGA will be part of a broader group which will provide governance type functions. We believe credit should be given to those MGAs with larger parental support. Access to these services allow an MGA to leverage capabilities otherwise not offered their competitors of similar size at certain efficiencies.
- MGAs often have superior systems with real time data. Will this be built into the expectations or seen as excellence?

## **Financial Condition**

We consider this to be crucial when assessing our MGA partners.

- How much will be affected by the size of entity. How would this be measured: staff numbers, GWP?
- Financial condition based on equity – will bigger MGAs automatically get better scores? We think that a more detailed definition of “equity” would be helpful. If we are discussing true Balance Sheet equity, which is independent of a corporate consolidated Balance Sheet, then some credit should be granted to the wider group. However, we don't think MGAs should receive improved scores due to size only.
- Credit should be provided for MGAs with the ability to remain solvent over time. This is a primary credit and execution risk for the fronting carrier as well as insurers when faced with a run-off concern. We think it is essential to assess the MGAs ability to exist long term beyond the liabilities.

## **Talent**

The development and retention of talent is key to the long term success of an MGA. We consider that organisational talent requires more than just Underwriting skills. The leadership team within an MGA need all of the skills required to run a business, for example HR and people infrastructure.

AM Best Proposal for Performance Assessment for Delegated Underwriting Authority Enterprises - R&Q Feedback

27<sup>th</sup> April 2021

We note that IT talent is a requirement in carrying out most of the functions required of today's MGAs (i.e. reporting, monitoring, cyber liability or network functionality). There needs to be credit granted to those MGAs with dedicated IT professionals designing, deploying, and maintaining the various platforms required to operate.

### **Relationships**

The strength of an MGAs relationships is difficult to measure however it is fundamental to the success and longevity of an MGA. Established relationships with Insurers, Reinsurers, TPAs, Brokers and other market specialists is a business enabler.

We note that your assessment scores suggest that having a large number of diverse programs suggests a higher score however we consider that mono-line or niche MGAs may also have very strong relationships which should also be able to score highly in this category.

### **Conclusion**

We welcome the opportunity for Performance Assessments to be offered to Delegated Underwriting Authority Enterprises by AM Best. We will be encouraging our current and potential partners to participate. Our own due diligence and ongoing monitoring of MGAs is very thorough and robust however we will be reviewing our procedures to ensure that the considerations that you have raised are fully reflected in our processes.

We note that the process is likely to be self-selecting, with only those MGAs which believe that they will receive a positive assessment likely to request the service. In addition, an MGAs which scores below 'Strong' are unlikely to ask for their assessment to be made public.



[Redacted]

04/30/2021 07:15 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc [Redacted]

Subject Comments on Draft Methodology:  
Best's Performance Assessment for  
Delegated Underwriting Authority  
Enterprises

1 attachment



Comments for Draft Methodology - Bests Performance Assessment for DUA Enterprises.docx

Please see attached comments to the draft methodology for Best's Performance of DUA enterprises and keep anonymous.

Thanks



Overall, we are positive towards what AM Best are trying to achieve and feel that a 3rd party / objective assessment of MGAs would initially have a positive impact for the insurance market. The framework is holistic and allows capacity providers to make assessments of new coverholders, or to get insight into the quality of governance controls and underwriting procedures that have been measured to a consistent set of standards across the industry. However, we do think it will be difficult to get MGA / Coverholder to submit to this process, and the ultimate value will be related to the depth and breadth of the market AM Best can cover. Also, we are concerned that this will add material costs to an already expensive model.

Below are comments and questions from [REDACTED] on the Bests Performance Assessment Draft:

- How does AM Best intend on getting MGAs to sign up to their new assessment service, to ensure uptake is meaningful enough across the market to enable insurers to truly understand who the best MGA companies are from this approach? Will you select MGA's, or will they volunteer for the review? What is your timeline to full coverage of the market? We suspect that this will depend on how much pressure carriers put on the MGA to cooperate with AM Best. We believe that the uptake by MGA's may be low. An MGA with a poor assessment from AM Best would likely struggle to secure ongoing capacity, so why would it be in the interests of most coverholders to get an AM Best rating? Also, we believe that MGA's that are independent or small will not want to submit to this process. Unless it is mandated, most MGA's will not cooperate. You may want to pilot this process with large MGA's that are interested in this concept.
- It appears that after the AM Best analysis has been undertaken, an MGA may elect to have their PA Score / Status published on the AM Best website, maintain a private rating, or withdraw from the ratings process. On that basis, carriers might struggle to gain much relative insight if the worst scoring MGAs can hide away. This option will reduce the PA value.
- We have the impression that this approach is more targeted at the large MGA houses rather than small independents. How will AM Best approach a roll out across the MGA market? Will you vary the scope or depth depending on the type and size of the MGA? We can see the logic for larger houses who want to attract capacity, but it could be a significant cost to perform on a smaller/more niche business which again may bias the nature of take-up.
- Not all coverholders we work with are themselves large organizations where consistent assessment is possible. Many coverholders are small independents or part of larger MGA / Broker based organizations. We don't believe smaller companies will have the desire to go through a process with a larger credit rating organization and for MGAs that are part of a larger network / broker group. Also, transparency in the data may be limited.
- The types of information that AM Best are looking to assess, particularly on underwriting performance, is not a straightforward exercise and not publicly available. For example, an MGA that places business through a subscription market would not necessarily know the IBNR that each of their capacity providers holds against their account, and many companies do not reserve at an MGA level. Therefore, we believe there will be certain data limitations that can only be overcome with involvement from the insurers that provide capacity to the MGA. How will you assess items that are not public? A true assessment of the performance of the business is likely beyond the scope of the information the MGA possesses.
- It can be challenging to derive a highly meaningful scoring approach around business performance when there may be such varying degrees of data and information available, or the analysis requires judgments and projections. For some elements of the assessment, the true

value may be the information available, rather than necessarily the score itself (which may be a useful indicator, but without context and supporting data could be meaningless).

- We are not aligned with the basis of the assessment of the 'depth & breadth of relationships' category. It appears from the PA that bigger is better. The process references more programs, more products, greater number of capacity providers, broad spread of geographies, broad spread of relationships all as positive features. However, some of the best MGA facilities are the hard to get on, sticky, niche / specialist portfolios. We think it would be important to properly account for this type of MGA as well.
- We have concerns that in the medium to long term that this may be used as a tool to drive up acquisition costs. There will obviously be costs involved at any participating MGA to provide data and work with AM Best to assess the MGA each year, but you can see a scenario whereby the higher scoring MGAs use the assessment of AM Best as a differentiator / a bargaining chip to push up their MGA commissions.
- The process outlined is extensive, and not dissimilar to the due diligence Insurers would still have to undertake. Given the engagement levels and AM Best resources (analysts and a rating committee) the process is not going to be cheap and is duplicative. Ultimately this will add additional costs to what is already an expensive way to write business and MGAs will doubtless pass these costs on to carriers, particularly as it is proposed to be an annual exercise. Can any of the work product underpinning the PA score be used to reduce either the Insurer's own due diligence or audit costs to avoid too much duplication or will all the analysis be proprietary to AM Best. We need this to be cost effective for the market, which means the approach must have a way to eliminate duplicate work between Best, Insurers and the MGA's.
- Much of the language in the Best PA for DUAЕ's document is US focused. Will this be a global initiative? Are you starting in the US and then expanding internationally, or is this US only?
- Has this process been discussed with regulators? Some have their own process to approve coverholders MGA's. It would be useful to have this coordinated.
- The PA makes reference to how DUAЕ's chose and partner with TPA's, but that is a choice and relationship generally determined by the Carrier. For example, the carrier often would determine the claims TPA and not the DUAЕ.



Tom Kussurelis  
<tkussurelis@arrowheadgrp.com>  
04/30/2021 03:52 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>  
cc Tom Kussurelis  
<tkussurelis@arrowheadgrp.com>  
Subject Response to AM Best-Best's  
Performance Assessment for  
Delegated Underwriting Authority  
Enterprises (DUAEs)

On behalf of Brown & Brown National Programs:

**Information Required Per Proposed DUAE Assessment:**

The scope of the data requested is vast. As it is described, if all programs within our national programs division are assessed, the documents will certainly run into the thousands, likely tens of thousands. This presents several problematic issues, including:

The National Programs division is a decentralized group, which is a key strength, as such the workload to assemble, review, and submit the documents requested will take considerable effort from key people, possibly to include the hiring of new resources to assist. The total cost of internal resources, including onboarding of new teammates to respond to any such requests, could be significant.

Specific loss data is not available in a consistent manner across programs. For example, some programs have actuarial studies performed by our own in-house actuaries, others by outside firms, others by carrier actuaries, others have carrier reports not performed by actuaries, and the myriad possibilities and variances are nearly endless.

A Supplemental Questionnaire from AM Best was suggested as the starting point for gathering data, a sample is not provided, so the complexity is unknown, and based on carrier reporting experiences of individuals on our team it is expected that the tasks related to completing questionnaire are similar in complexity to providing the data itself, as all data must be viewed to determine if to be included or not.

**Performance Assessment:**

The Performance Assessment is not a financial rating, rather it is a rating on the DUAE "ability to perform services". The 5 assessment areas and related points provided by AM Best for their Performance Assessment do not align with our standard assessment criteria, which have been developed by a group of leading experts in our organization with years of industry experience, for example AM Best ranks Talent as worth 5 points, as it does Relationships, versus 10 points each are available for Financial Condition, Governance and Internal Controls, Underwriting Capabilities. While we certainly do not diminish the importance of the latter group, especially underwriting, certainly Talent (people!) is the #1 driver of success in our experience, while also acknowledging that there is a good deal of subjectivity around talent evaluation.

One of the key motivations for an external industry review is to increase the transparency into a particular DUAE's ability to perform. It is not clear that the ranking system as described can be effectively administered by AM Best, especially across the relatively large number DUAEs and the optionality to actually participate. The review by AM Best of carriers already includes a detail on DUAEs with which a particular carrier is engaged. The effectiveness of a DUAE is already subsumed in the carrier rating from AM Best to some degree. We do not believe ultimately the Performance Assessment proposed by AM Best as currently contemplated would add transparency to the ultimate rating of carriers.

Sincerely,



TOM  
KUSSURELIS  
EVP AND COO

Arrowhead General Insurance Agency, Inc.  
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Kevin Daily <kevindaily@cashea.com>

04/30/2021 04:12 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Comments on A.M. Best's  
Performance Assessment for  
Delegated Underwriting Authority  
Enterprises

Dear Sir or Madam,

This is in response to your "call for comment" on the new methodology on Performance Assessment for Delegated Underwriting Authority Enterprises ("PA").

C.A. Shea & Company, Inc. is a privately held insurance broker and DUAE, specializing in the placement, administration, and claims handling of U.S. Customs bonds. Our company has surety relationships going back over 75 years and has dealt with many different markets over the years to administer their U.S. Customs bond needs.

We have reviewed the Draft published and believe that, while comprehensive, A.M. Best's approach to evaluate a DUAE is flawed in several ways. Our concerns can be grouped into these main areas:

- The assertion by A.M. Best that this is not a credit-based evaluation.
- The difficulty in objectively comparing private entities and those entities which are either public or owned by insurance carriers.
- How A.M. Best plans to evaluate a niche market.
- The difficulty new entities will have getting an acceptable rating.

A.M. Best is a well-respected firm primarily engaged in the credit analysis of insurance carriers. We are concerned however, that while the PA indicates that it is a "forward-looking, independent, and objective **non-credit** opinion" that it is, in fact, a credit analysis of the DUAE. After all, there is a section specifically for "Financial Condition" of the DUAE that requires the disclosure of financial information. If the aim of this assessment is truly to render a non-credit opinion, then there should be no need for financial information.

While many DUAEs are privately held companies there are also a significant number of DUAEs which are owned by public companies – or even insurance companies themselves. It will be very difficult for a private DUAE to complete the PA, as presented, without revealing potentially sensitive financial and market information, which will result in a lower rating. For example:

1. While providing financial and/or operational information may be something the non-private DUAEs are willing (or even obligated) to do, it is likely that a privately held company would be reluctant to disclose the private financial and critically sensitive information as the information may be considered proprietary. Because failure to provide this information would ultimately impact the private DUAE's rating, the process potentially puts them at a serious competitive disadvantage.
2. Disclosure of the contractual relationship and results between the DUAE and its

business partners may violate confidentiality clauses in those relationship.

Based on these significant differences between insurance carrier / publicly owned and privately owned DUAEs, how can A.M. Best possibly hope to objectively compare such entities?

As outlined in the PA, DUAЕ's are used by carriers to gain access to niche specialty markets. Many DUAЕs spend years or in some case (such as ours) generations in perfecting their expertise in their respective markets. How can A.M. Best possibly familiarize themselves enough with each niche in such a short period of time to offer a worthwhile assessment? For example, comparing a DUAЕ who provides car insurance would be quite different than a niche DUAЕ who provides license and permit bonds.

Additionally, the PA assumes that all companies being rated are existing companies. How does A.M. Best plan to handle new companies? Most of the items outlined in the PA, including a company's experience, premium history, contracts, financial statements, and systems in place, make it all but impossible to obtain an acceptable rating for a new company – stifling competition and halting innovation. Further, the PA does not provide any indication of a cost that would be associated with obtaining a rating. The cost has a potential of being a very meaningful increase in expenses to a DUAЕ's operation, especially when paired with governmental and other 3rd party's compliance requirements being imposed on businesses. The financial obligation of yet another third party, asserting their relevance, has the potential of financially impacting a DUAЕ at a rate greater than the claimed benefit.

In all honesty, this process seems to serve no purpose other than establishing A.M. Best as the de facto licensing authority for DUAЕs, while passing the cost of this new administrative burden onto the DUAЕs themselves. AM Best appears to expect insurance companies to turn over their own due diligence and relationship auditing to a 3<sup>rd</sup> party. The DUAЕ and insurance company relationship is a private, confidential matter. We believe these business partners would and should expect that their relationship be kept between those parties.

With our experience in this sector of this industry, we question the need for such a rating.

We hope these comments are considered when determining if the implementation of this process should move forward.

Respectfully,

Kevin J. Daily  
Vice President

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*Over 75 years of Courtesy & Service*



[Redacted]

05/03/2021 06:20 AM

To <methodology.commentary@ambest.com>  
cc  
Subject DUAE framework feedback

Please find attached comments on the draft *Best's Performance Assessment for Delegated Underwriting Authority Enterprises* .

In line with the requirements of the original request for comments to explicitly request anonymous treatment, and as set out in the document, we request that **any comments published should be done so anonymously, without reference to [Redacted]**, please.

Regards,

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]



AM Best DUAE framework - response to consultation.pdf



## Introduction

This paper sets out observations from [REDACTED] in response to AM Best's request for comments on *Best's Performance Assessment" (Best's PA) for Delegated Underwriting Authority Enterprises (DUAEs)*. The paper is intended solely for that purpose, and should not be circulated without the consent of Convex. **Any individual comments published should be published anonymously, without reference to [REDACTED].**

In responding to the consultation paper, there are a number of factors that need to be considered. Broadly, these fall into two categories.

- Whether the assessment in and of itself is asking the right questions.
- Whether it is something that we would be able to use in our assessments and how useful it might be as a tool.

To summarise our consideration of both questions: The assessment is in and of itself broadly asking the right questions and the framework is logical in assessing key areas of risk with a DUA. However, we consider that there are potential deficiencies in how effective it might be in a broader sense across our portfolio.

That is not to say that we would not find the assessments useful. Where available we can integrate the assessments into our internal reviews and can rely on elements of it, but it would not be feasible to remove entirely our internal assessments of the DUAEs.

## Observations on the framework

### Granularity of analysis

One of the key potential issues that needs further consideration relates to the level of grain of the assessments, specifically as to how homogenous an assessment is across a DUA. This comes in two spaces:

- Commercial: where different lines of business and products across differing programs may have significant variance in regards of commercial performance, systems, staff and support
- Subsidiaries / operating business units: larger DUAEs may have either fully-integrated offices or separate business units, either due to the stage of their integration lifecycle subsequent to acquisitions or by design.

Given that our engagement with a DUA is likely to be at this level of grain, an assessment against the overall entity may lack the nuance required to make an assessment. On commercial activities, these would be reviewed internally irrespective of any performance undertaken by AM Best. On the subsidiaries point, appreciating that it would not be feasible for AM Best to review these at this level of grain, but some





consideration of how integrated the operating businesses are within the DUAЕ may be of benefit to the assessment, particularly for insurers to understand how the DUAЕ is dealing with these issues internally and managing operational risk through change in particular.

### Market Penetration

The comments in this section relate to which DUAЕs are likely to engage with this and how much take up there might be. This would impact how useful the framework is to us as an Insurer engaging with MGAs.

The framework will likely appeal to larger multi-disciplined MGAs, firstly because they will have the resource to engage with it and secondly because they may see this as a way to shortcut due diligence and oversight from carriers. It will also be seen as advantageous by owners and shareholders. But there are potential issues in how this might be adopted and how we useful the framework would be:

- Giving DUAЕs the option to opt out of publishing results publicly will skew the overall scoring across the framework - DUAЕs with poor scores will not publish them.
- Larger DUAЕs are likely to have more robust controls in place - therefore may not be our highest areas of risk.

Smaller DUAЕs are unlikely to have the resource to engage with the framework on an ongoing basis. These will, in the majority of instances, be the entities with less robust control frameworks and systems in place, and ironically assessments in this space would be of most benefit to insurers.

As a result of the above, we consider it is likely that take-up of the assessments would be in the majority larger DUAЕs with robust risk control frameworks in place.

### Assessments

In broad terms, the assessment categories are logical and, in most instances, would assist in our review of an MGAs. However, given the issues identified above, and regulatory requirements, it would not be possible to rely on these solely.

### Underwriting

Assessment of underwriting profitability is not something that we would assess using the framework. Given the issues identified above, larger DUAЕs will have a plethora of different offerings, and consequently a single score will be a very blunt instrument. Our line underwriters would not rely on this score and would exercise their own judgement on a case-by-case basis.

The operational metrics relating to underwriting are much more likely to be of interest. Technology in the underwriting process, systems and controls are fundamental to managing risk, so these would be of value.

### Governance and Internal Controls

These assessments are closely aligned with review that is undertaken internally. Greater visibility of some of these areas would be of significant benefit.

### Financial Condition

We can see the value of a financial score, as this would reduce the need for bespoke analysis, however if DUAЕs can keep this private or withdraw then the results are very skewed.



Overall, the categories included in the assessment are adequate and pitched to the correct level, although we note it might also be helpful to include an assessment of governance and controls around premium payments to carriers.

#### Depth and Breadth of Relationships

This is helpful as context, but will be heavily dependent on specific products being sold where the profile of geographic reach and retention in particular will vary significantly.

#### How we might use the output

The overall performance score of the DUA will be at too high a level for us to engage with in detail, although more specific risk scores would help us in a number of ways. Having this information available on a regular basis would help us to assess specific areas of risk.

The ease of interacting with these scores on an ongoing basis depends on how these are made available. Having these published and visible in .pdf format would likely be the easiest way for AM Best to make this available.

However, having these score available in a structured data format and available to integrate into our internal review processes (preferably through API) would make the assessments significantly easier to consume.





05/03/2021 03:34 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Performance Assessment for  
Delegated Underwriting Authority  
Enterprises - anonymous comments

Good Afternoon,

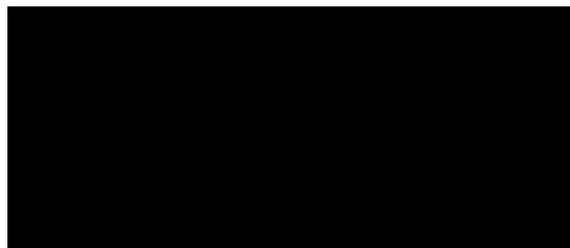
Thank you for offering us the opportunity to provide anonymous comments concerning the new proposed Performance Assessment for Delegated Underwriting Authority Enterprises (DUAE). It was very comprehensive and evident that much thoughtful and expert consideration was given in creating it.

We agree with the importance of assessing the performance of third party entities which could have a **significant** impact related to the financial performance of (re)insurers.

In addition:

- We agree with the broad, holistic evaluation criteria that AM Best has developed to assess the performance of the DUAE.
- You may want to consider reviewing the definition of DUAE to confirm that third party relationships used by an insurer to adjudicate claims is not a DUAE.
- You may want to define the amount of gross and net premium managed by the DUAE as a minimum threshold for evaluation. It is our position that a DUAE under review should underwrite a minimum of 5% of overall company net premium for an insurer to be in scope of a performance assessment.
- You may want to define the Performance Assessment process for a DUAE which represents numerous insurers. It is unclear who is submitting information to AM Best when a DUAE may be representing more than one carrier for the same or multiple product lines. This lack of clarity could lead to unintended consequences when multiple carriers are involved.
- You may want to further define what impact the Performance Assessment may or may not have on the insurer's rating.

Thank you again for this opportunity to comment and please let me know if there are any follow-up questions to this email.





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[REDACTED]  
05/03/2021 04:48 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>  
cc  
Subject Comments on Draft Methodology for AM Best

[REDACTED] have reviewed your

**DRAFT: Best's Performance Assessment for Delegated Underwriting Authority Enterprises.**

Our broad comments/questions are as under:

### **Insurer Engagement**

- What plans do you have to engage with Insurers/Reinsurers on their views of assigning a PA rating to a DUAE/MGA and how/if they would use this in their selection/approval criteria for incepting a new contract or renewing a contract with a DUAE/MGA
- It can take many months of due diligence to incept a new contract with an Insurer/Reinsurer or renew a significant contract – how do you see this will help Insurers/Reinsurers and the DUAE/MGA materially shorten this process and start trading much sooner
- What account is taken of the spread of Insurers/Reinsurers and their financial security ratings across the business of the DUAE/MGA and the use (if any) of unrated security

### **Cost**

- What are your thoughts on the cost of getting and keeping a PA rating and how this cost is equitably calculated for different sizes of DUAE/MGAs
- Some DUAE/MGAs will have separate regulated entities for their business and multiple business lines within the entities - do you envisage a rating for the "top co" or individual ratings for the regulated entities and how do you see the costs for "multi DUAE/MGAs" under one ownership
- Are monitoring costs of AMB in the process included in the overall cost and how is cost transparency delivered
- How frequently is this rating assigned / re-evaluated

### **Underwriting Capabilities**

- We believe there should be significant credit given (within an agreed format/process) for "clean" Insurer annual audits as these would be aligned with strong underwriting capability
- You say you will look at specific underwriting elements in the general agency agreement contract (e.g. premium volume compliance, limit of liability compliance) but as each contract is carefully negotiated there are other clauses and conditions that can materially improve the outlook for the DUAE/MGA and have a bearing on the Financial Condition of the DUAE/MGA so will these be looked at and considered here or in the Financial Condition part (for example: multi-year agreements; longer cancellation notice provisions; protection of interests clauses so staff or business is not solicited; Profit Commission Clauses, Full Delegation v Prior-submit)
- Underwriting performance is obviously part of this and within this IBNR and reserving processes (both of which are mostly controlled by Insurers) how will you address this when assigning a scoring to the DUAE/MGA when this process is not fully under their control and can vary from Insurer to Insurer and portfolio by portfolio?

- What other KPIs will you look at at how would you benchmark them (eg. Risk Adjusted rate Change; Technical v Actual Price Ratio/Benchmarking; Renewal Premium Retention Rates, other)
- You reference looking at last 3 years results and would credits be given for longer track records and cumulative profitability
- When you look at diversification will you also look at whether the business mix is long-tail, short-tail or medium tail and could each affect the scoring if this is a factor

#### **Virtual Insurer DUA/E/MGA v Basic DUA/E/MGA**

- For us, a virtual Insurer DUA/E/MGA is one where the underwriting authority is a delegation of the underwriting process from start to finish and where we decide price, terms and conditions (rather than a prior submit DUA/E/MGA where all terms are individually agreed first by Insurers). Also, having claims authority and access to actuarial resource would also position a DUA/E/MGA as a virtual insurer. Given this, how do you foresee credit being given in the five categories (Underwriting Capabilities; Governance & Internal Controls; Financial Condition; Organisational Talent; Depth & Breadth of Relationships)

#### **Technology**

- Within the scoring you give a higher scoring to “innovative processes and technology” so would be interested to see how/what you would look at to determine what is innovative to achieve a higher scoring

#### **Policies and Procedures**

- How will you make the distinction that not all policies and procedures will be the same for each company but do need to be proportionate and fit for purpose. If an Insurer has deemed them appropriate and fit for purpose what else will AMB require and how will they evaluate and score them

#### **Financial Condition**

- Are you planning to include minimum solvency / financial ratios and if so what are you considering

#### **Captive or Risk Bearing Entity**

- If a DUA/E/MGA has a risk bearing entity via a captive or protected cell arrangement or other, how and where would you give credit for this in your scoring

#### **Longevity**

- Where you look at a DUA/E/MGA with a long history of trading 10 years or greater with an auditable book of business and Insurer relationships how will/can the scoring vary versus that of a start up or < 3 years trading
- Why wouldn't you wait until an entity has say at least a 3 or 4 year trading history before being eligible for a rating

#### **Actuarial**

- What (if any) actuarial analysis will AMB complete or require especially as you say you are also looking at “expected future performance”

**Timing and Engagement/Resources**

- How long could the process take (before getting a rating) depending on the size of the DUAЕ/MGA and have you got some broad parameters as this looks like an extensive review and we would link this to the point made in Insurer engagement and not wanting to go through the same process twice
- Where do you have people to do this (countries) and what experience do they have in this type of analysis for DUAЕ/MGA businesses
- The ongoing dialogue with management how do you see this annual + material updates or other
- Before a rating is finalised will the DUAЕ/MGA see a full draft with explanations and for each part to be challenged / commented on before a final report is issued and with enough time for dialogue and resolution of points

**Confidentiality**

- How is confidentiality maintained for any DUAЕ/MGA that does not want it known externally they are in the PA process. They may want to go through the process but without disclosing externally they are going through the process (noted the report rating can be public or private).

There are my broad comments and we would like to stay engaged in this process with you.

Kind regards,

[Redacted signature]

[Redacted signature]

[Redacted signature]

[Redacted signature]

[Redacted signature]

[Redacted signature]

[REDACTED]



[REDACTED]  
05/03/2021 05:18 PM

To methodology.commentary@ambest.com  
cc  
Subject DUAE methodology

Hi,

We would like to request anonymity for these comments.

As the underwriting function evolves from traditional evidences (medical exams, fluids, etc.) to alternative evidences, we believe that the evaluation of DUAEs should incorporate the firm's ability to leverage technology to make underwriting decisions. We have the following suggested changes for the draft methodology.

**Underwriting Capabilities Section:**

- Underwriting Competitive Advantage - [Suggested Addition] - AM Best will evaluate the DUAE's ability to leverage technology to enhance its underwriting capabilities
- Proprietary Data and Analytics - [Suggested Addition] - AM best will evaluate the DUAE's ability to aggregate and analyze data from diverse sources, including: application data, external risk measures, behavioral data, source of leads, marketing campaign data, proprietary risk measures and policy admin data
- Experience of Underwriting Staff - suggest changing this section name to "Experience of Underwriting and Data Science Staff". [Suggested Addition] - AM Best will also evaluate the experience of data and analytics professionals for programs that automate traditional underwriting functions
- Technology in the Underwriting Process - [Suggested Addition] - AM Best will evaluate the DUAE's data infrastructure and ability to collect and analyze data. AM best will assess the ability of the DUAE to rapidly evolve with the industry, including: flexibility to make changes to underwriting rules, flexibility to make changes to underwriting evidences, and ability to evaluate prospective and historical modifications to underwriting.

**Financial Condition Section:**

- Analysis of Financial Measures - Suggest adding revenue growth and unit economics

**Organizational Talent:**

- Tenure - Suggest Replacing "AM Best will compare a DUAE's level of tenure to prevailing industry standards." with "AM Best will compare a DUAE's level of tenure to prevailing industry standards, factoring in the growth in the number of employees and the age of the DUAE."

If you have any questions, please do not hesitate to reach out,

Thanks,

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]



"Cagnetta, Ralph"  
<Ralph.Cagnetta@WillisTowersWatson.com>  
05/03/2021 07:19 PM

To "methodology.commentary@ambest.com"  
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CC "Leo, Enrico A."  
<Enrico.Leo@WillisTowersWatson.com>, "Nusaputra, Adrian"  
<Adrian.Nusaputra@WillisTowersWatson.com>  
Subject Request for Comment on Performance  
Assessment for Delegated  
Underwriting Authority Enterprises

The attached contains Willis Re's response to AM Best's Request for Comment on Performance Assessment for Delegated Underwriting Authority Enterprises. We welcome the opportunity to directly review our response with AM Best to better understand the criteria.

Regards

***These figures should be read in conjunction with the disclaimers included in the attachments from which they have been extracted.***

**Ralph Cagnetta**  
Executive Vice President

**Willis Re**  
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AMB DUAЕ Criteria - WRe Response 05032021.docx



## Response to AM Best's Request for Comment on Performance Assessment for Delegated Underwriting Authority Enterprises

WillisRe

### Underwriting Capabilities:

- It would be helpful if more clarity is provided around on what type of documentation is needed by the analyst to make an informed assessment around underwriting capabilities. The extent that the DUAЕ has control over the loss ratio varies extensively, which would make it challenging for the analyst to make an informed assessment.
  - There are many nuances of the DUAЕ and underwriting performance needs to be viewed in context. For example, some carrier partners have smaller balance sheets than others and cannot absorb much volatility. Therefore, there is a greater need for the DUAЕ to produce a lower planned loss ratio. Conversely, carriers with a more robust balance sheet can tolerate a higher planned loss ratio.
  - Also, carrier partner strategies may value growth or diversification in a LOB or territory, while other deals that involve a front / reinsurance might target a lower loss ratio since there are more frictional costs to cover.
  - Finally, other DUAЕ deals are focused on fee income which is outside of the underwriting loss ratio. In these cases, the DUAЕ and carrier are in many cases targeting breakeven / nominal profit in its underwriting while making its target margin on fees.
  - Will AM Best establish benchmarks overtime to be used in comparables of DUAЕs performance?

### Financial Condition:

- In many hybrid models (carrier owned DUAЕs), the DUAЕ is the less regulated vehicle and can transfer funds more easily in comparison to the highly regulated, related carrier balance sheet. For example, there are carriers that pull capital out of the DUAЕ (or provide services at a steep discount) to help bolster the carrier's balance sheet or support growth. If reviewing the DUAЕ in isolation, underwriting performance and financial condition would not appear as strong.
- Can PAs receive "benefit" or "group support" given the assigned ratings of its carrier owner? Also, if the DUAЕ is affiliated with a captive, what are the implication on the PA from the financial condition of the captive?

### Start-Ups:

- It would be helpful if more clarity is provided around stress factors to be applied to start-up DUAЕ's; where are the limitations applied within the overall PA or PA subfactors? Are start-ups essentially capped at PA-2 or PA-3, for example?

- Please provide more context and maybe provide examples of management experience requirements. For example, would a former underwriter at an insurance carrier who starts a DUAЕ be considered as having “appropriate” or “strong” experience?

**General:**

- Within the application of the PA criteria is there any unintended bias against smaller DUAЕs? For example, larger DUAЕs will have audited financials especially if raising capital or engaged in M&A, while smaller DUAЕs would not necessarily need to incur additional costs of the annual audit.
- Will Best be engaging with the DUAЕ directly including those that are owned and managed by carriers?
- Can a Private PA be made public by the DUAЕ at any time? How does the rating relationship change upon that decision?



Ernie Zayicek <Ernie@amresynd.com>

05/05/2021 06:24 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc Alex Grant <Alex@amresynd.com>  
Subject DUAЕ Draft Comment Period  
Submission

### AM RE Topics Raised for AM Best DUAЕ Comment Period

1. According to the draft under Exhibit C.3.: Governance and Internal Control, one assessment is the DUAЕ's partnership with third-party TPAs. Is it AM Best's intention to require the use of a reputable third-party TPA to receive the highest tier score?
2. Are TPAs included for review/scoring as they are a critical component of the third-party value chain for program business?
3. The draft does not mention the circumstance where in-house TPAs are utilized/assessed and seems to heavily favor the use of third-party TPAs. Does AM Best plan to amend the Partnerships with TPAs section to assess the effectiveness of in-house TPAs? How does AM Best view TPAs/claims handling processes that have an element of automation in them?
4. Under the Executive Experience section, it does not mention a financial background check for executive management. Does AM Best plan to run background checks on the executive management and the board of directors when applicable?
5. There is a heavy emphasis for the use of Insurtech for MGAs. Does this rating give significant benefit to those aligned with Insurtech or benefit larger MGAs with more systems or system complexity? Does AM Best plan to consider the effectiveness of the technology and scope rather than the sheer size of systems? If yes, how does AM Best plan to measure how effective a system is and what is their criteria?
6. AM Best measures the number of programs a DUAЕ offers. Would MGAs who are niche, and write best in class monoline business be viewed negatively due to this metric?
7. How does AM Best view reinsurance MGAs who provide reinsurance through a fronting carrier, and ultimately support a primary MGA?
8. Lastly, regarding the structure and performance of the underwriting portfolio, how is the information verified on the MGA level?

Please do not hesitate to reach out if you have any questions.

Regards,

Ernie

**Ernie Zayicek**

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