

AM Best's Briefing - Delegated Underwriting Authority Enterprises: Headwinds & Tailwinds

Senior leadership from AM Best and Conning discuss the challenges, opportunities, innovations and shifting dynamics in the DUAЕ/MGA marketplace.

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View the complete webinar at: <https://www.ambest.com/video/Video.aspx?vid=6326336093112>

SRIDHAR MANYEM: Hello, and welcome to the AM Best briefing on the U.S. DUAЕ market segment. I know it's a mouthful abbreviation, DUAЕ. It stands for Delegated Underwriting Authority Enterprises. The term covers enterprises such as MGAs that pretty much do everything except assume risk, MGUs that underwrite on behalf of other insurers, Lloyd's cover holders, program underwriters, essentially organizations to which insurers hand over their pen and authorize these DUAЕs to underwrite risks on their behalf.

From AM Best's analysis, it appears that 2022 marked another year of double-digit growth in premiums written through MGAs in the U.S. The MGA market is definitely playing a significant and increasing role in the insurance value chain.

Thanks for tuning in into an exciting hour discussing the MGA market, the prospects that we see for the market for 2023, areas of opportunity, and risks for MGAs and insurers using these MGAs. We are going to be discussing the effects of a recent hard market coming out of COVID, which appears to be moderating a little bit. There are other forces like inflationary pressures, exogenous factors like reinsurance capacity, and what its effects will be on MGAs.

We will also touch upon our Performance Assessments for DUAЕs and a review of some recent assessments that we have conducted.

My name is Sridhar Manyem, and thankfully I am not going to be doing this alone. I am going to be joined by eminent panelists who are highly qualified to speak on this subject. I work in the industry research department at AM Best, and we will meet the panelists in a moment. Before that, I wanted to let you know about regulatory things.

We may mention the subject of financial strength ratings and Performance Assessment. A full explanation of our ratings and Performance Assessments is available online at www.ambest.com. The opinions that are expressed by our guest panelists are theirs and not necessarily reflect the opinions of AM Best.

If you have a question or comment, you can send it to us at webinars at ambest.com and we will do our best to recognize your question during the program. So let us meet the panelists.

First, I would like to welcome William Pitt from Conning. William is Conning's director of research and consulting. William has a very rich and diverse set of experiences prior to Conning, including roles at Beazley, Marsh, and Lloyd's of London. We are really thrilled to have William with us.

Next, I would like to welcome Riley Parnham. Riley has been with AM Best for the past three years as a financial analyst and has quickly become an expert on DUAЕs and is very closely involved with our Performance Assessment process.



Finally, I would like to welcome Greg Williams. Greg is a senior director in the property and casualty group. He has more than 15 years of experience at AM Best and has a great depth of insurance knowledge, having worked in the industry for 10 years prior to AM Best as well. He is the leader of our Performance Assessment process, so he has great insights to share with you.

I want to begin with you, Greg. We can start with a broad picture, starting with our outlook on the DUAEs.

GREG WILLIAMS: Back on December 5, 2022, AM Best assigned a positive outlook for the global DUAЕ market. That outlook was predicated on three basic themes, the first being the ongoing growth that we have seen in the market. We have seen the ongoing growth, and we will get into a lot of these themes throughout the hour today, but just from a high level, what we have seen is really good, strong growth in the DUAЕ market over the past several years.

The outlook took into consideration that we expect to see that growth and profitability going forward, maybe at a little more moderate pace, but still growth. What is driving that growth is a number of things.

If you think about the strong pricing, we have definitely seen strong pricing fundamentals within the DUAЕ market.

We have seen an influx of talent into the DUAЕ market, some of it which is coming from the established insurance carriers. We have seen nimble operations. We have seen advancements in technology. We have seen enhanced risk management practices. That is all fueling the growth that we are seeing.

Secondly, we are also seeing growing interest in program business by capacity providers. Those capacity providers are expanding in number, and they are also diversifying in nature.

And finally, we have seen, due to some of the economics, some investments from private equity accelerate over the previous couple of years. Maybe it is moderating somewhat now, but they are attracted by the high EBITDA returns, the low balance sheet investments, and also by the free cash flow that these entities produce. That is fundamentally where we see the positive outlook.

Now, are there concerns? Yes, there are definitely concerns. They have probably become a little more heightened over the last several months. But again, number one concern, and we are going to talk about this a lot during the webinar today, is the pullback of capacity.

As we were doing the outlook, we did note that there was some

pullback in capacity. Think certain lines such as cat-exposed property. Think cyber. We did see that pullback in capacity in certain pockets within the DUAЕ market.

At this point it doesn't seem to be a whole retrenchment. But it is something that we are going to keep our eye on as we go forward here. Even when DUAEs have secured capacity, there is no doubt there has been elevated reinsurance costs with it. Even if some DUAEs were able to secure capacity in cat exposed property, what we have seen is obviously the pricing go way up, and at times it makes the programs economically not viable to continue. That is always a concern there.

Then we are seeing some economic challenges, just general inflation. As MGAs and DUAEs work within their own expense structure, inflation is impacting that. If you think about the claim inflation as well and the compression that it could have not only on commissions but also contingent commissions.

Those are the main concerns I think from going forward here. But in totality, what we saw is that tailwinds outpaced the headwinds, but it is something that we continue to monitor as we go forward.

SRIDHAR MANYEM: Thank you. That was very interesting.

William, I want to get you in the conversation and maybe put a plug for Conning's MGA report as well that you publish every year. Pretty insightful. In terms of views on the MGA or the DUAЕ market, do you share Greg's views in terms of the positivity?

WILLIAM PITT: I think so, Sridhar, yes. We have been looking at the MGA market for a decade now in detail.

We looked at it before that. We have produced a very deep dive into the market each year for a decade now. This will be our 10th coming out in June. One of the things I think we have seen is an evolution of the perceived role within the industry of MGAs in the value chain, as you alluded to earlier.

They used historically to be more of a sort of soft market phenomenon. Now they are really an all-weather phenomenon. We are in a very hard market in lots of lines of business and we see MGAs continuing to grow significantly. We think there are a few reasons for that.

There are three pillars, really, to a modern MGA.

There is the talent that you need to establish it. That is not purely underwriting talent, but it is increasingly technology-oriented talent as well.



There is the technology itself that MGAs are increasingly deploying. I will come back to that because it is an interesting aspect of the way in which things have changed over the past ten years, attitudes towards technology among MGAs and use of technology.

Then finally there is the capital.

Now if you look at the first two of those, there has been a significant, as Greg alluded to, a significant movement of talented people into MGAs in recent years, both from brokers and from carriers.

I think that they have done more than level the playing field, if you like, with carriers on the technology front. The technology is actually where a lot of MGAs excel at the moment in terms of data analytics and things of that kind.

The area which is a bit challenged, more challenged, as we were talking about, is the capital side, is the capacity side, where definitely it is more of a seller's market for capacity than it was a year ago or two years ago.

SRIDHAR MANYEM: So let us peel the onion a little bit, William, in terms of talent. I mean, you are saying a lot of talent is moving. Is that because we are seeing a consolidation in the insurance industry and therefore you are seeing a lot more talent move to the MGA market?

WILLIAM PITT: Well I think there was a little bit of a post-COVID bounce in this. People thought there is an interesting entrepreneurial opportunity for me and they maybe had done some reflection while they were not in the office about what they wanted to do with the rest of their careers, and some people thought there was a real opportunity to do something more entrepreneurial in that way.

But the more important factor that we think is the way in which technology talent, which our industry has had a lot of challenges recruiting very often, and underwriting talent and insurance operational talent, all of that insurance side of the shop, they can work very well together in MGAs. They seem to be able to work well together in MGAs.

They are easier to recruit, really smart data scientists and software engineers and people of that kind, and they work sort of shoulder to shoulder with the underwriting professionals. I do not think it is any accident that we have seen a lot of activity by MGAs in the cyber market, which is very sort of tech forward, as you would expect, and a lot of them were founded by people with technology backgrounds.

But the pendulum has swung a little bit on that in the sense that there is this perception that the underwriting skills are also critical and you cannot just have shiny tech and it will do everything for you.

But that is a big element of the talent story.

SRIDHAR MANYEM: Interesting. Thank you. You alluded to the hard versus the soft market phenomenon. They used to be a soft market phenomenon because there are a lot of insurers searching for risks in the soft market. In the hard market, is this more about the talent, technology and they have the capacity to do better in a hard market or is it ...

WILLIAM PITT: They have more to prove. If you are looking for capacity, and one of the things which I think we are going to talk about is the role of the fronting companies and the role of the diversifying sources of capacity that are coming in behind the fronting companies from international reinsurance markets, that is more of a seller's market. The ceding commissions are not what they were and so the margins are being squeezed for MGAs and they need a very good story to tell. They need to convince those capital sources that they will produce the profits that they claim to be competent of.

SRIDHAR MANYEM: Very good. Thank you for the overview.

And Riley, to complete the overview, what are we seeing from a 2022 perspective in terms of growth and premiums and so forth from an MGA standpoint?

RILEY PARNHAM: We are continuing to see growth, first off. There are a growing number of MGAs collaborating with insurers to write specialty business. That is helping to fuel the US P/C premium generated by MGAs overall. AM Best has identified over 650 distinct MGAs that have generated premium over the last year. That is based off Note 19 of the individual insurance companies 2022 NAIC statements.

This does not represent the entire universe of MGAs as NAIC regulations require companies to report only premiums for individual MGAs whose annual premiums represent 5% or more of the company's annual policyholder surplus. So these numbers are more of a floor, if you will. But still it provides a good apples to apples comparison for us.

We have seen some insurers leverage MGAs to source new business, but only around the margins, typically representing less than 5% of overall premiums.

Other specialty insurers focused on specialty commercial



insurance employ a hybrid model. They will have certain programs managed by in-house underwriters and others by MGAs. In these relationships, carriers rely on MGAs for most, if not all, of distribution and underwriting.

With that dynamic in mind, if we look at direct rent premium for 2022, we will see according to our Note 19 data, it was over \$67 billion, or a 13.8% increase year over year. That followed a substantial 17% increase from 2021.

As drivers of continued growth, we have seen tightening in different segments of the commercial lines market, particularly with respect to general liability, professional liability, umbrella and excess, and commercial auto coverage over the last few years.

Hardening marketing conditions, as we have talked about already and will continue to talk about, drove business to the surplus lines market, which likely increased total premiums written by MGAs as they are an important distribution channel for the surplus lines business.

Now in 2022, we did see pricing on most liability lines have a diminishing effect on overall premiums. However, that did not cause MGA-produced market premiums to decline as MGAs working with recent startup specialty commercial carriers helped fuel that top-line growth for our entities.

Newer surplus line insurers, and we will get into this further, including fronting and hybrid fronting companies formed at different points over the last several years, have also gained noticeable traction with MGAs helping to fuel that momentum.

As shown in our second exhibit, you will see the types of authority granted to MGAs and the percent of MGAs that have each type of authority. Depending on the specifics of the contractual agreements with their insurance carrier partners, an MGA's function can include binding coverage, underwriting, pricing the risk it selects, settling claims, or even binding reinsurance on behalf of the insurance company, as well as appointing licensed and retail agents.

Aligning with MGAs enables insurers to withdraw their capital investments relatively quick if performance does not meet expectations. As we see among the authorities, underwriting is predominant at nearly 80%, followed by premium collection and binding authority. Claims handling is largely seen more in the affiliated arena, but overall we do not see much change from year over year. Again, all information is based on our Note 19 data.

SRIDHAR MANYEM: Interesting. We do see a lot of growth. William, where is the growth coming from? More importantly,

when people talk about insurance it is more like people talk about relationships. It is more of a relationship business. You use words like trust, I have been associated with a company for a long time, so on and so forth. So how do new MGAs, for example, overcome these challenges and get into partnerships with insurance companies?

WILLIAM PITT: Often they have those relationships. They start off with those relationships, particularly on the distribution side. They say that they can access a particular specialist distribution for a specialty niche. One thing that absolutely has not changed about MGAs is that they are focused on niches. That is what they do.

I was talking to the head of a very successful MGA a couple of days ago who said that the way in which he pitched his MGA to capital providers had evolved a little bit over the years because he used to talk about the quality of their underwriting and their underwriting skills and things, and then he discovered that the capital providers were not actually interested in that per se. They wanted the reasons why this niche that they were targeting was structurally likely to be more profitable over time, so that regardless of your underwriting capabilities and skills you could make a profit in it.

So that is the starting point, is to select the niche that you really believe you can make a good loss ratio on, a good return on. Then, as you say, the relationships come into play.

But what we are seeing is capital coming from all over the world through the international reinsurance markets through fronting companies. The fronting companies have the relationships, obviously, but those reinsurance companies beyond do not. One of the things that they like is that they are getting closer to the original risk through supporting MGAs. They are learning about some of these niche markets.

A huge dimension, I do not think you can overemphasize it, is the optionality for carriers that MGAs give you. You can dip a toe into the market and then you can pull a toe out of the market, and so that, in a time of increasingly volatile exposures, is very attractive.

SRIDHAR MANYEM: Yes, I absolutely agree. MGAs are a great way for insurance companies to manage the cycle, just get in and out, as opposed to building an infrastructure to take risks on their own balance sheet, absolutely. We do think with some of the technology MGAs, with the recent dip in the insurtech funding, I think will expose some of the weaker MGAs. We think there will be a survival of the fittest.

WILLIAM PITT: Which is healthy anyway, to some degree. It is



not fun for a lot of participants in the market, but yes, absolutely.

SRIDHAR MANYEM: Absolutely. Riley, maybe on the reinsurance capacity, we know that the reinsurance capacity is very tight, especially with a lot of reinsurers pulling out of the property/casualty market or increasing prices or decreasing capacity.

We talked about cat-exposed property and MGAs and fronting market. How do you assess that from a ratings or a Performance Assessment perspective?

RILEY PARNHAM: Before getting into that, or how we assess it necessarily, if we look back a few years ago and thinking about reinsurance capacity, we saw relatively cheap and plentiful reinsurance was a major driver behind the wave of fronting carriers entering the sector. Now with capacity less abundant in many lines, particularly cat-exposed property, there is a need for MGAs to differentiate themselves.

We saw reinsurers were prudent with their deployment of capacity at 1/1 and that continued at 4/1.

Rate increases and tightening of terms and conditions were visible across most business lines, with cedants forced to increase retentions, reduce limits, and accept lower ceding commissions.

The capacity dynamics driven by these market conditions will have varying impacts from MGA to MGA. Those with underperforming portfolios or whose profitability forecasts fall short of carrier expectations are going to be at a greater risk for capacity pressures.

When it comes to how we capture within our Performance Assessments, we look at how these relationships with MGAs and capacity partners are managed. The ability to maintain consistency in its relationships with partners will contribute to the MGA's overall success as effective communication and interaction with these key stakeholders adds value to the operations. We review an MGA's historical relationship during its existence and will consider the tenure and growth of these relationships in our assessment.

MGAs have been able to demonstrate competitive advantages, whether through tech, data analytics, and specific areas of underwriting expertise. Those will be seen as particularly valuable and should help navigate the evolving market conditions.

SRIDHAR MANYEM: Interesting. William, any thoughts on capacity? I think you mentioned about the capacity pullback as

well. How do MGAs navigate the cycle? It is easy for insurers to pull in and pull out.

WILLIAM PITT: Well, it is very striking, Sridhar. If you look at post-Katrina, biggest nat cat loss ever, and post-Ian, you have seen a dramatic diminution in the amount of capacity that has come into the property market as a result of that in terms of new insurance companies, reinsurance companies, capitalization of existing insurance companies to take advantage of those opportunities, sidecars, all that kind of thing.

What we have seen at the same time is there is significant money still coming into the MGA market, not so much necessarily on the property side but more on the casualty side, but nevertheless, through what I think of as kind of capillary connections into the market as opposed to these big arterial connections where you capitalize a Class IV reinsurer in Bermuda and you are away.

And so that is this idea of, in a much more granular fashion, fashioning the capacity to the risk and to the opportunity that a particular niche provides or multiple niches provide. That is quite different from what we have seen before. That appears to be part of the longer-term picture that capacity providers like. But it is still, as we talked about, tough for the MGAs, certainly with marginal value propositions that might have looked great two years ago, to get up and running or to get increased capacity.

SRIDHAR MANYEM: Interesting. Yeah, maybe that is the evolving trend. You do not see a class of 2020 after...

WILLIAM PITT: Exactly.

SRIDHAR MANYEM: You are seeing more MGA formations and as opposed to...

WILLIAM PITT: The other thing worth mentioning is that this is happening outside the US as well. It is more challenging to get your arms around how much it is happening outside the US because we do not have all these wonderful Note 19 statistics. We are going to have the Lloyds figures for the US in our report in a couple of months' time, but it is a global phenomenon. They are growing in the UK. They are growing in continental Europe. They are growing in Canada and Australia and around the world.

So that is a dimension of the story as well.

SRIDHAR MANYEM: Greg, you want to close out this particular topic with any further observations?

GREG WILLIAMS: I agree with everything that has been said. Maybe I will take a different approach.



I know Riley covered how we assess the capacity environment and what is happening in the reinsurance market from a Performance Assessment standpoint.

I will talk a little bit about fronting and the hybrid fronts because I know in the briefing that we put out, we point to a 38% increase in fronting premiums from 2021 to 2022. Again, it is hard to get our exact numbers around the fronting market because there is no definition. Is a fronter someone who retains 10% or is it somebody who retains 20%? At which point do you draw the line?

What we tried to do is based upon our knowledge of the company, based upon our knowledge of the business plan, try to identify the pure hybrid fronts or where the majority of premium is fronted. And what we are seeing is an explosion that supported the DUAE growth that we have seen.

When we take a look from a credit rating perspective with frontiers and take a look at what is happening with capacity, what is going on? On the reinsurance market, we talked about the tightening and the implementation of caps and corridors. That might have not been there two years ago with the frontiers.

When we discuss this development with the fronting companies, what we are trying to understand is, if there are caps or corridors, if there is a loss ratio cap where all the risk above that comes back to the fronter, how are they handling it? Are they buying external reinsurance to cover them? Or at what point do they get comfortable at a 1 in 500 loss ratio or a 1 in 250 storm? We need to get behind that as all these developments are occurring on the capacity front.

I would also say with the reinsurers, they are pushing for more risk sharing. They want the alignment of interest. That is one of the hallmarks between 20 years ago versus today where you have that alignment of interest. Reinsurers are pushing for that.

The reinsurers are looking for upwards of 10% to 20% percent, and it can be a combination. It could be where the fronter will take a certain percentage. What we have seen is that there has been more captive startups within the MGA environment. We are seeing a lot of that take place as well.

What does that mean from a fronting perspective? If you are going to have a captive as a reinsurer on your panel or if you are going to go to nontraditional reinsurance, maybe from an ILS, which we are starting to see, or from non-rated reinsurers, from a risk management standpoint, we are having detailed conversations with fronting companies and hybrid fronts about how you deal with that. How do you deal with the fact that maybe you don't have ratings on these reinsurers or it is ILS? We

are having detailed conversations with them.

Paramount to that is collateral. How are they managing collateral through this process?

One other area that we are seeing from a capacity standpoint is some MGAs are raising capital on their own, where they are really becoming their full stack carrier. Given some of the capacity constraints, they might be raising capital and then creating insurance companies themselves to have that from a vertical standpoint.

Those are important points as we talk about capacity and how we view that from a fronting market, because it is very important right now as we see frontiers continue to grow.

SRIDHAR MANYEM: Conning's numbers are pretty reasonably consistent, at least in terms of growth and the capacity, the 38%?

WILLIAM PITT: As you said, it all depends where you slice it. The figure we had was 33%, but it is not radically different. That was coming on top of 45% growth the previous year. It has been a real ramp up.

The point you make about caps and corridors is a great one, because if you are talking about lines that have a material catastrophe risk embedded in them, such as cyber and things like that, you want to look very carefully at the way in which those could respond in a cyber cat. People talk about cyber cats, the thing is we have the general view in the markets. We have not really seen one yet. What could come through? That is a very valid concern.

SRIDHAR MANYEM: Now I want to shift gears and go to a very important part of the insurance market that we have not discussed. William, going back to your Beazley and Lloyd's London days, around November 2022, I think Lloyd's announced a DA, or they call it DA, Delegated Authorities Strategy to be the market of choice for sustainable, profitable, delegated business partnerships where there is an alignment of interest between the coverholders and the managing agents.

It looks like Lloyd's Delegating Authorities team will be moving from a gatekeeper role to overseeing market practices and working with underperformance. Lloyd's cover holders have a huge role in the risks that Lloyd's assumes. How have you seen these evolve as you are looking at it?

WILLIAM PITT: It is the biggest distribution channel for Lloyd's underwriters from the US today, what they call coverholder



business or binder business. That is a product of history in a sense. It is the only way in which Lloyd's has been able to economically access that business sitting on the other side of the Atlantic. But it is a huge trend in Lloyd's history.

One of the challenges of it in recent years has been relatively high expense loads on that business. Lloyd's is working hard to try to get those down. They have come down a bit. There are some really interesting initiatives in the Lloyd's market at the moment. I was talking to an MGA just last week, which is more of a sort of algorithmic underwriting model which has got its expense ratios down by nine or 10 points below the market average. There are some individual companies that are pioneering interesting things in this space.

Lloyd's has also got a strong focus and has had a strong focus on marrying technology with underwriting capabilities and underwriting skills. It is an interesting thing in the Lloyd's context because Lloyd's used to be the place you went to when there was not much data about the risk, and this is an expression which for understandable reasons they do not always like necessarily, the market of last resort, the place that you went to last.

Well for a lot of these risks, the data is actually quite plentiful. We are not talking about that sort of historic model. But there is a lot going on with Lloyd's underwriters that are teaming up with very innovative insurtechs to rate particular risks in a more granular way than was possible historically and so forth. Clearly it is going to go on being an important part of the mix for Lloyd's, a crucially important part, and it is growing now.

Lloyd's cut back a couple of years ago because a lot of these binding authorities were subjected to that Decile 10 initiative that Lloyd struck with the bottom 10% performing part of the business and so the cover holder business actually fell. But it climbed the year before last to 7.1 billion, which was the business that came through coverholders based in the US. My understanding is that it has climbed quite again quite materially last year.

SRIDHAR MANYEM: Clearly a very important part of the Lloyd's market, the cover holders. At AM Best clearly we thought that these kind of enterprises, coverholders, MGAs, were one of the more important pieces of the market, and that is why we thought it warranted a special Performance Assessment so that we could assess what kind of risks these MGAs are taking and whether we could have a relative scale when we assess these MGAs.

Riley, would give a very brief high-level overview of our process and what it entails?

RILEY PARNHAM: Before we get into the assessment components themselves, let me first define a Performance Assessment. A Performance Assessment is a forward-looking, independent, noncredit opinion indicative of a DUAE's ability to perform services on behalf of its insurance partners.

We have five key assessment factors: underwriting capabilities, governance and internal controls, financial condition, organizational talent, and depth and breadth of relationships.

We're starting with underwriting capabilities. At a high level, a few of the underlying factors that we look at include quality of underwriting and underwriting results. We'll review the premium and loss histories of a DUAE's program. We'll also look to understand the company's competitive advantage. We'll also consider the role and nature and use of data in a DUAE and assess their data collection and monitoring procedures.

DUAEs may also be involved in managing claims, whether that be outsourcing to a TPA, partnering with their insurance carrier, or managing internally. Regardless of the method, we look to understand how these claim management methods impact underwriting performance.

Although the level of sophistication may vary, strong governance and internal controls ensures risks are managed effectively across an organization, regardless of size. We'll make sure they have appropriate license, policies and procedures, such as a disaster recovery plan, tracking of service measures, and broker contracts are in line with regulatory requirements.

Fundamental to our analysis is also a DUAE's financial statements. We'll evaluate cash flow to understand the constraints and flexibilities that arise with management. We'll also look at their stability and sources of income. Stability of income can depend on the business they're writing, the sustainability of their relationships. We'll look to understand the nature of their commission, fee, or other income arrangements.

The final two components are organizational talent and depth and breadth of relationships. The organizational talent component gauges the strengths or weaknesses between a DUAE and its employees and partnerships. A company with strong talent will have high quality and time-tested expertise necessary to ensure longevity of its customer relationships and program offerings. A DUAE should maintain appropriate talent for its size and complexity.

Finally, depth and breadth of relationships. We measure the number of programs a DUAE offers, a well-rounded portfolio of programs. A DUAE's area of expertise ensures spread of risk and



helps that the DUAЕ can survive well into the future, such as if a key partnership is to be terminated.

However, we do also acknowledge that in some cases a company's value may be derived from their niche expertise or access to business and not just the level of program diversification. Together, all these components and underlying factors help us understand DUAЕs and their ability to perform services on their insurance partners.

SRIDHAR MANYEM: And then, so we put all these factors together, go to a committee, and come up with a Performance Assessment.

We have done Performance Assessments over the year. Can you touch on some of the observations and findings that you can note?

GREG WILLIAMS: We have five that we've done. Actually, two we've already done in a renewal cycle with Castel and Cargo Corp., where we just affirmed their assessments in April.

So maybe a couple highlights, talk about the Performance Assessments. One thing to highlight here is the strength that we're seeing from the DUAЕs that we've assessed thus far. In some respects, it's not that much of a surprise. If you think about maybe the credit rating universe on the credit side, most are rated A- or higher, because it's a voluntary process. It's really a selection bias, where people who think they're good, they're going to enter the process. We've seen that.

The overall assessments don't surprise me, where you have one at PA-1, exceptional, two at PA-2, excellent, and two at PA-3, strong. They do go down to PA-4 and PA-5. Again, you can see the distribution here.

What has encouraged us is the profitability of the programs associated with these entities. Even where there is some profitability issues, the swift action management has taken to address the profitability issues has been a strong point.

If we think about the capacity issues that we've discussed throughout this webinar, they really aren't rearing their head with these DUAЕs specifically. Part of it might be the lines of business. We don't see too much property on the example of lines of business. But also it speaks to maybe the consistency and the profitability, and we've talked about survival of the fittest. We do see these trends. Hopefully the profitability trends solidify the relationships with capacity providers.

What we've seen is experienced management teams. We talked a lot about the influx of talent.

We see that within these DUAЕs.

The internal audits are also a welcome surprise. Some of the best practices maybe from the talent coming from the insurance companies, they've brought that over to the DUAЕs. We see more rigorous audits, internal and external audits than I maybe would have thought going into the process.

We also view the internal systems that the companies have been able to provide. William talked a little bit about systems and their ability with technology. We've seen that come to bear in these entities as well.

The other highlight maybe from this slide here is the diversity that we're seeing. If you think about diversity, I mean in terms of premium, in terms of lines of business, in terms of markets.

So premium you go from small, really small Cargo Corp. with about \$10 million in gross written premium, all the way up to Amwins Group with \$2.6 billion in terms of what goes through the DUAЕ channel. Then you have a couple in between. We have diversity there.

We have diversity in the lines of business. So you can see throughout the five and also the primary markets.

When we released the methodology, it is a global methodology, the outlook is global as well. You can see we have US, we have Latin America, we have UK, we have New Zealand, Australia. Again, maybe not mighty in number at this point, but I would say that I like the diversity that we're achieving here. That's probably the two areas that I would highlight.

From a market feedback perspective, I think MGAs see it as a competitive advantage. They have a seal of approval. We went through this process and they can market that to their capacity providers.

We've had discussions. Some have alluded to the fact that they were able to bring capacity providers on through this process, through that. I think capacity providers like it because it's another tool in their toolbox. That's probably a good way to look at this. In addition to their own due diligence it's probably another tool that they can use in that toolbox.

I think regulators and investors like it. Regulators, again, there's not much public disclosure around these type of entities. A lot of them tend to be private. Some of the reports that we put out around these entities do provide good information around how we arrived at the assessment, also some high-level premium statistics.



Investors, as they look to get into this market, we talked about the interest. This can be used from that perspective as well. We do think generally there has been positive feedback.

And I know the question, why do you only have a certain amount of number? I think there's a wait-and-see approach. These are the public ones. We also have some private ones. We're also working on a few.

I do think that there's a wait-and-see approach to see how valuable this process is. I do think it's the right way to go. As we go into maybe where capacity is further restrained, we got to see how it develops, I think it becomes more and more important as we go forward here.

SRIDHAR MANYEM: One follow-up question to you as for some of the MGAs that might be listening. How arduous or how easy is the process? What kind of materials do we expect and some kind of a timeline?

GREG WILLIAMS: It depends. Generally it's pretty much in line from what we see from a credit rating perspective, maybe in total six to 12 weeks. A lot of the time will be spent will be gathering the information.

On the credit rating side, we have what's called SRQ. I don't want to get into too much detail here, but on the credit or Performance Assessment we have what's called a PAQ, a Performance Assessment questionnaire.

We try to get premium and loss statistics by program. We try to get underwriting results. We get commission structures. We get staffing turnover. We get balance sheet, income statement projections, the financials.

A lot of the time is spent with the DUAЕ providing that information to us. That's probably the majority of the time. Some organizations, some DUAЕs have that readily available. Some have to reformat it to get it into what we need. From that six to 12 weeks, a lot of that time will be spent on that.

Once we have that information, we have a management meeting with the DUAЕ management, go through any questions that we

have, then go back. Then we follow the process we do on the credit rating side except we're looking at different factors. That's what I would say around the process itself.

SRIDHAR MANYEM: All valid and reasonable requests that the company should have, but there might be a little bit reformatting and things like that.

We saw a couple of MGAs, AM Best-rated ones, become full-stack insurers that we rated, like Coalition and At-Bay. Is that some kind of a trend that we could see in the future as well?

RILEY PARNHAM: That's something we've seen. For MGAs, securing capacity and that alignment with reinsurers, whether that's their own captive or going full-stack like we saw in their own E&S carrier, I think that's something we're going to see here, especially in the hard market.

WILLIAM PITT: There's a sort of continuum, as you can imagine, certainly the captive route, a lot of people are taking that up. I think that that is likely to be a trend.

SRIDHAR MANYEM: I want to thank all of you for the time that you spent. Great insights. I enjoyed the discussion a lot. Maybe some closing thoughts, we can start with William on the state of the MGA market, something that we haven't discussed.

WILLIAM PITT: It's like they say in the state of the nation, isn't it? The state of the nation is good. The state of the MGA market is very healthy. It does go back to this connecting capital to risk in a more sophisticated way than has historically happened. It isn't a cyclical phenomenon in the way that it used to be. We do expect them to continue to play a bigger role in the value chain going forward.

GREG WILLIAMS: I would echo that. As our positive outlook on the DUAЕ market indicates, we're bullish on it with some cautionary flags, especially around capacity.

RILEY PARNHAM: I agree with everything said here. I have nothing else to add, Sridhar.

SRIDHAR MANYEM: Excellent. Thanks a lot.

