March 1, 2022

Delegated Underwriting Authority Enterprises Gaining Market Traction

DUAEs have become an increasingly relevant part of the insurance and reinsurance value chain

Principal Takeaways

- Delegated underwriting authority enterprises (DUAEs) have become an essential part of the insurance ecosystem.
- The recent growth in managing general agents (MGAs) can be attributed to their ability to attract talent and embrace technology.
- The pandemic has not had a substantial negative impact on MGA's direct operations, although some individual lines of business and risk classes in which they specialize have been acutely affected.
- Rate firming has helped boost MGA premiums in recent years, particularly for struggling lines of coverage, in terms of profitability, including general liability (both occurrence and claims made), professional liability, cyber liability, and commercial auto.
- Intensifying competition in the hybrid fronting insurance model is being driven partially by reinsurance partners seeking to align their interests with involved partners.
- M&A interest remains high for insurance distributors in general and for MGAs in particular.
- As the pandemic reduced in-person interaction and created internal process and communication hurdles in the life/annuity segment, MGAs gained more authority.

DUAEs—specialized agents or brokers to which insurers delegate underwriting authority—have become valuable components of the property/casualty insurance market, as insurers that have developed partnerships with DUAEs have been better able to diversify risks in line with their risk appetite. Not only have these new avenues allowed insurers to expand their product offerings and provide solutions for a wider range of risk classes, but they also provide growth opportunities and add to bottom line profitability for many carriers.

DUAEs – The Basics

Unlike traditional insurance agents and brokers, DUAEs may be granted underwriting authority by an insurer and can administer programs and negotiate contracts acting as the insurance agent or broker for the insurer. Insurers grant underwriting authority selectively since underwriting capability differs from one DUAE to another. DUAEs can also serve as the intermediary between the insurers/agents and the insureds. Insurance carriers also use DUAEs because of talent and infrastructure constraints. Insurance companies give the authority to these insurance partners to bind business, along with responsibility for other functions.

In *Best's Performance Assessment for Delegated Underwriting Authority Enterprises* methodology, AM Best defines a DUAE as a third party appointed by a (re)insurer, through contractual agreements, to perform underwriting, claims handling, and other administrative functions on behalf of its partners. DUAEs include MGAs, managing general underwriters (MGUs), coverholders, program administrators, program underwriters, underwriting agencies, direct authorizations, and appointed representatives. MGAs, the most common form of DUAE in the US market, will be the primary focus of this report.

Analytical Contacts:
David Blades, Oldwick
+1 (908) 439-2200 Ext. 5422
David.Blades@ambest.com

Sridhar Manyem, Oldwick
+1 (908) 439-2200 Ext. 5612
Sridhar.Manyem@ambest.com

Contributors:
Robert Raber, Oldwick
Jason Hopper, Oldwick
Michael Lynch, Oldwick

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AM Best's Evaluation of the DUAE Market

The basis for our analysis of the US-based DUAE market is the information insurers provide in Note 19 of their annual financial statements filed with the National Association of Insurance Commissioners (NAIC). Note 19 specifically identifies the MGA through which an insurer has written direct premiums and provides the MGA's federal employee identification number. Note 19 identifies whether the contract between the two parties is exclusive, as well as the type of business written, type of authority granted, and total direct premium written by the MGA. NAIC reporting regulations for Note 19 require that companies disclose individual MGA premium data only for those MGAs whose premium constitutes more than 5% of the risk-bearing entity's policyholders' surplus. Premium data and associated information for MGAs that do not reach the 5% threshold do not need to be reported on Note 19. Our aggregated premium total also does not include premium written by Lloyd's syndicates, which is considerable but is undisclosed. For those reasons, this analysis of MGA premium should not be considered an exhaustive estimate of MGA-produced premium because it does not include the premium figures for smaller MGAs or individual programs that do not meet the threshold.

Another important distinction is whether an MGA is affiliated or unaffiliated with the insurer. An affiliated MGA is one that is 100% owned by an insurer. An unaffiliated or nonaffiliated MGA is a third party that can do business with multiple insurers. An exclusive contract with an insurer does not mean the MGA is an affiliate of the insurer.

Each DUAE may have unique characteristics and specific agreements can include distinct functions and features. Insurers typically enter relationships with DUAEs to generate growth, provide specialized market expertise, and handle administrative functions related to the business produced.

Exhibit 1 describes some of the common types of specialty insurance distributors. The terms "managing general agent" and "program administrator" are largely interchangeable. Insurers use these distributors to access specific risk classes because they may not have the expertise to underwrite them. Some DUAEs handle a number of their partner insurers' functions, such as administrative services and claims management.

Market Conditions Drive DUAE Premium Growth

In the US, annual direct premium written (DPW) generated by MGAs, as calculated from NAIC statements, has grown in recent years, including a 6% increase in 2020 (**Exhibit 2**). Tightening in different segments of the commercial lines market drove premium growth by MGAs from 2017 through 2020, particularly with respect to general liability, professional liability, umbrella and excess liability, and commercial auto coverage. The hardening market conditions drove some business to the surplus lines market, which likely helped increase MGA-produced premium since MGAs are an important distribution channel for surplus lines insurers. The rate/pricing increases affecting these coverage lines helped offset the COVID-19-related contraction in premium for MGA-controlled programs covering entities in the service, entertainment, and travel industries. MGAs have demonstrated their agility since the pandemic began, pivoting to focus on providing solutions for insureds in other classes or segments to offset programs for hospitality or service risks that were limited or shut down. Opportunities were created for MGAs to seek new insurer partners and meet the market needs for affected programs.

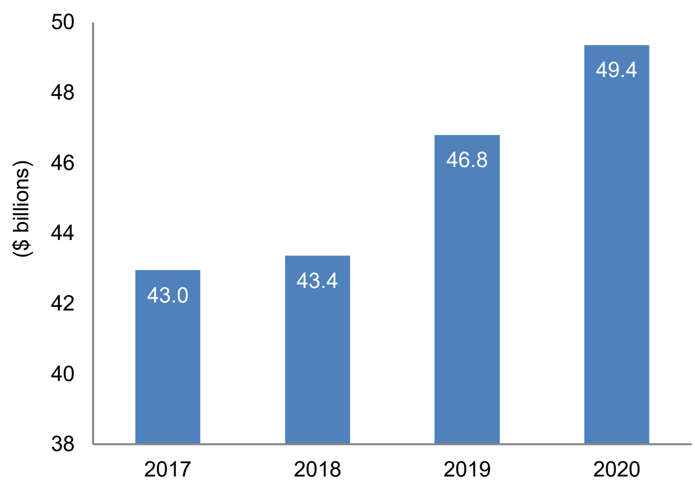
The economic uncertainty owing to capacity restrictions, business closures, and other factors across a wide swath of industries forced MGAs to re-think aspects of their operations. MGAs have added value to clients by helping them understand the risks associated with needed adjustments in response to COVID-19.

Exhibit 1
Delegated Underwriting Authority Enterprise Descriptions

Managing General Agent	MGAs are specialized insurance agents/brokers that represent (re)insurance companies, acting as intermediaries among (re)insurers, retail agents, and wholesale brokers or agents. MGAs take on functions ordinarily handled only by insurers, such as binding coverage, underwriting and pricing, appointing retail agents within a particular area, and settling claims. Unlike MGUs, MGAs can be involved in the claims process (paying and/or adjusting claims) or the loss control process. MGUs have been less involved with claims or loss control than MGAs. MGAs are usually involved with risk classes or lines of coverage that require specialized expertise.
Managing General Underwriter	MGUs have many of the same characteristics as MGAs but are typically granted broader underwriting responsibilities than MGAs because of their expertise with the risk class, program, or line of business. (Re)insurance companies will contractually allow MGUs to underwrite and bind coverage on risks that fall within specific guidelines or parameters established by the (re)insurer. The MGUs' responsibilities can extend to pricing, crafting policy wording, appointing retail agents, and occasionally handling and adjusting claims and claims payments.
Program Administrator	A program administrator is often synonymous with an MGA and the terms are used interchangeably. Program administrators will handle similar functions as MGAs for specific programs of homogeneous risks, generally providing services such as underwriting, binding, policy issuance, and premium collection. They also provide back office support to insurers, helping them better manage the program from their end. Given the depth of program administrators' expertise, (re)insurers may extend them certain loss control and claims management duties, as well.
Underwriting Agency	Agencies given underwriting and policy writing authority by an insurer. The authority given allows the agency to underwrite, price, and issue the physical policy to the insured. For the scope of services rendered, the agency receives increased commissions.

Source: AM Best data and research

Exhibit 2
US P/C Industry: Managing General Agent Direct Premiums Written, 2017-2020



Source: AM Best data and research

The growing number of MGAs collaborating with insurers to write specialty business is helping to fuel the increase in US P/C premium generated by MGAs. AM Best identified 663 distinct MGAs from its review of Note 19 of insurers' 2020 NAIC statements. This does not represent the entire universe of MGAs since many MGAs produce annual premiums for insurers that fall below the 5% of surplus threshold. As the premium and the number of MGAs have grown in recent years, so has the number of different carrier-MGA relationships, from 890 in 2019 to 970 in 2020. This reflects new players, including insurtechs, taking advantage of an improving market, along with established MGAs growing their premium to a level exceeding the 5% threshold.

Startup operations, private investments, and operational expansion have all fueled MGA growth. MGAs and other DUAEs have helped drive much of the transformation in the insurance industry from traditional functions and ways of conducting business, enhancing service for individual customers and businesses. Sizable capital investments from fronting insurers and reinsurers sparked growth and transformed the MGA market. Insurers striving to generate organic growth find the direct access to the ultimate customer/policyholder provided by MGAs both beneficial and lucrative.

Premium revenue generated through MGAs in the US has nearly doubled over the past decade. Acquisitions and consolidations of insurance distributors led to a decline in the number of brokers, while the number of MGAs rose. Specialized brokers shifted to MGA operations, providing insurers with a more cost-effective conduit to new markets. Some MGAs used established relationships with affinity groups to provide insurers access to niche business opportunities.

Tailwinds in the current market point to ongoing growth for P/C insurance premium generated through MGAs.

- Commercial insurance rates have been on a hardening trend in recent years. While the rate increases are stabilizing or decreasing, there appears to be some momentum in the near term for commercial auto, general liability, and casualty lines such as cyber.
- New economic and business realities resulting from the pandemic are creating demand for new insurance coverage solutions.
- New capacity from fronting carriers and others should also spark premium growth to address emerging or expanding exposures like marijuana and cyber liability.

DUAE Roles and Responsibilities

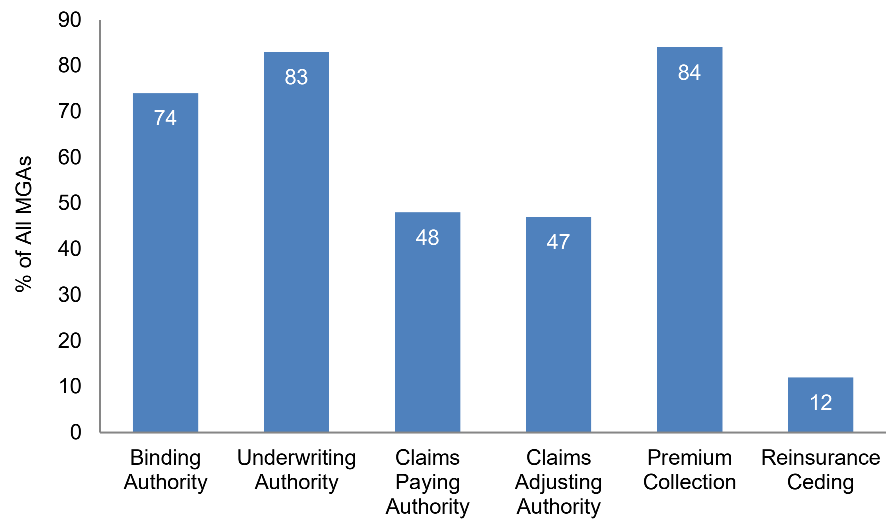
MGAs play a variety of roles in their partnerships with insurance carriers depending on their contractual agreements. These benefits include expanding capacity, diversifying portfolios geographically or by line of business, and enhancing a carrier's market agility, since MGAs can handle time-consuming roles such as policy processing and servicing functions. MGAs provide carriers with risk management and governance infrastructure, along with underwriting and pricing acumen. Because building such services and capabilities from scratch requires significant investment, MGAs provide a cost-effective way for (re)insurers to cover niche or emerging risks, as they can supply carriers with access to business for a fraction of the investment required to establish the necessary expertise in-house. Aligning with MGAs allows carriers to withdraw their capital investments relatively quickly if performance does not meet expectations.

Successful MGAs tend to have strong, long-standing customer relationships, robust frameworks for both managing account information and monitoring performance, and specialized expertise. As companies' risk appetites and strategies change due to market conditions, MGAs can offer a flexible alternative to adapt to insurance cycles.

An MGA's functions depend on the authority granted by the

Exhibit 3

Types of Authority Most Often Granted to US P/C MGAs, 2020



Source: AM Best data and research

insurer, such as administering programs and negotiating contracts (**Exhibit 3**), and include the following:

- *Binding/underwriting/policy issuance:* The MGA selects the risks to be underwritten, quotes on the risks, and binds the insurer on them, and issues policies, endorsements, binders, and other related documents.
- *Claims payment:* The MGA services and settles submitted claims, based on contractual guidelines.
- *Reinsurance ceding:* The MGA manages binding reinsurance or retrocessions on behalf of the insurer.
- *Premium collections:* The MGA collects premiums due on the insurer's behalf.
- *Appointing agents:* The MGA enters into agreements with properly licensed and qualified professional insurance agents and brokers to accept policies on the insurer's behalf.

As part of its contractual arrangement, the MGA acts as the carrier, at least in part, bearing the profit and loss that comes from underwriting. Typically, MGAs granted underwriting authority are also granted the authority to bind their insurance company partners on underwritten business. In the rare instance that a DUAE is given only binding authority, the insurer bears responsibility for account underwriting. In these cases, the insurer can also cancel a policy when it reviews the risk after binding.

Both Affiliated and Unaffiliated MGAs Augment Insurer Operations

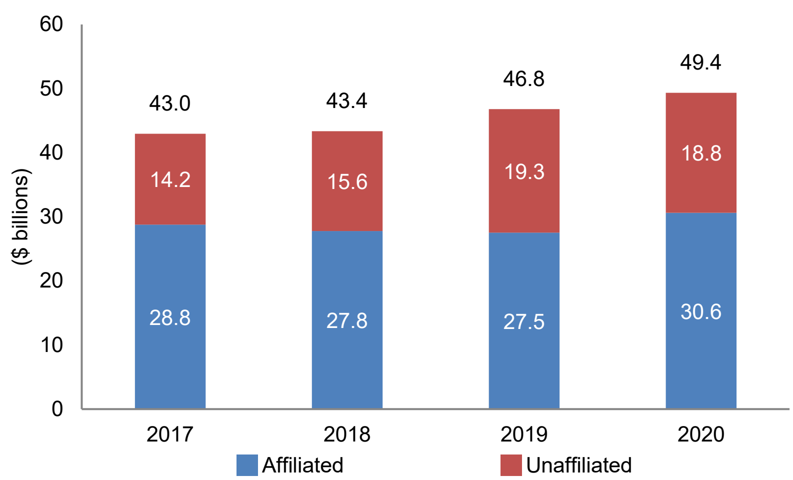
Exhibit 4 shows the split between affiliated and unaffiliated premium among the 663 distinct MGAs analyzed for this report. Of these, 458 are identified as writing unaffiliated business only; 183, as writing affiliated business only; and 22 as writing both affiliated and unaffiliated business. Although affiliated MGAs constitute a smaller percentage of the total, they accounted for approximately 62% of DPW in 2020, up from 58% in 2019 but commensurate with 2017 and 2018 DPW. The affiliated data includes multi-peril crop MGAs, which generated just under $5 billion in DPW in 2020. Crop MGAs are extremely specialized and are either participants in the federal government's multi-peril crop insurance (MPCI) program or integrated in the agricultural sector.

Because an unaffiliated MGA is a third party operating independently of the insurers, it may do business with any number of insurers and move its business from one carrier to another. The percentage of total MGA premium generated by unaffiliated entities has risen over the last several years as insurers have sought to achieve organic growth via expanded distribution channels. According to our research, in 2020, 20 unaffiliated MGAs generated over 60% of the total direct premium produced by unaffiliated US MGAs (**Exhibit 5**). Eight of the 20 wrote business with a single insurer (based on the 5% threshold); another five generated their listed premium total through only two insurers.

In 2020, Tokio Marine's Philadelphia Indemnity Insurance Company, a commercial carrier that has long focused on specialty niches, again generated the highest DPW for any company using MGAs (**Exhibit 6**). All of Philadelphia Indemnity's direct premiums are

Exhibit 4

US P/C Industry: Affiliated vs Unaffiliated MGA Direct Premiums Written, 2017-2020



Source: AM Best data and research

Exhibit 5

Top 20 Unaffiliated US P/C MGAs by Insurer

Ranked by 2020 Direct Premium Written ($ millions)

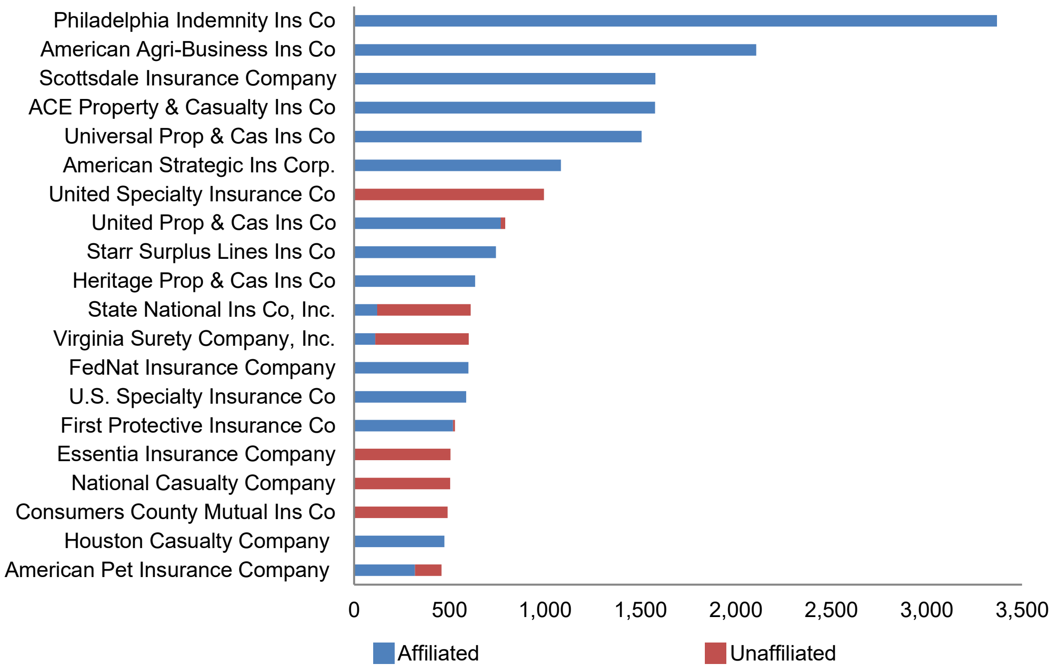
Company	DPW
Hagerty Insurance Agency, Inc.	**498.83**
Essentia Insurance Company	498.83
Arrowhead General Insurance Agency, Inc.	**490.58**
Princeton E&S Lines Ins Co	38.28
QBE Specialty Insurance Co	0.08
General Security Indem Co AZ	100.04
CUMIS Specialty Ins Co, Inc.	8.43
Palomar Excess and Surplus Ins	16.83
American Family Home Ins Co	15.33
Mercer Insurance Company	16.38
Universal North America Ins Co	79.68
Universal Ins Co North America	23.77
Palomar Specialty Insurance Co	130.76
United Wisconsin Insurance Co	21.73
Falls Lake National Ins Co	39.26
Travelers Texas MGA, Inc.	**489.48**
Consumers County Mutual Ins Co	489.48
AMRISC, LLC	**414.16**
United Specialty Insurance Co	77.90
American Coastal Insurance Co	336.27
E-Risk Services, LLC	**380.25**
Scottsdale Indemnity Company	125.82
National Casualty Company	24.08
Scottsdale Insurance Company	230.35
Starr Technical Risks Agency, Inc.	**365.75**
ACE American Insurance Company	365.75
Pearl Holding Group	**265.95**
Ocean Harbor Casualty Ins Co	214.45
Equity Insurance Company	51.50
National Transportation Associates, Inc.	**259.35**
United Specialty Insurance Co	259.35
CRC Insurance Services, Inc.	**251.72**
Freedom Specialty Insurance Co	5.71
Scottsdale Insurance Company	19.05
Republic-Vanguard Ins Co	16.65
Scottsdale Insurance Company	41.99
Scottsdale Insurance Company	14.21
Peleus Insurance Company	8.02
Southern Insurance Company	5.25
Scottsdale Insurance Company	17.31
Covington Specialty Ins Co	35.74
National Casualty Company	12.63
Scottsdale Insurance Company	70.26
United Wisconsin Insurance Co	4.92
Safeguard Products International, Inc.	**248.59**
Virginia Surety Company, Inc.	248.59
Burns & Wilcox, LTD	**238.78**
Scottsdale Surplus Lines Ins	2.11
Scottsdale Indemnity Company	5.91
National Casualty Company	11.74
Scottsdale Insurance Company	152.83
North Light Specialty Ins Co	66.17
K&K Insurance Group, Inc.	**238.59**
Scottsdale Indemnity Company	15.65
National Casualty Company	204.18
Scottsdale Insurance Company	18.76
Venture Underwriters, Inc.	**235.94**
United Specialty Insurance Co	235.94
Align General Insurance Agency, LLC	**225.29**
United Specialty Insurance Co	21.44
GuideOne National Insurance Co	70.62
Watford Insurance Company	45.60
GuideOne Insurance Company	5.36
United Specialty Insurance Co	82.26
Strata Underwriting Managers	**221.47**
Third Coast Insurance Company	221.47
Community Association Underwriters of Americ	**199.57**
American Southern Home Ins	4.40
American Alternative Ins Corp	183.22
American Family Home Ins Co	11.96
QEO Group, LLC	**192.19**
Clear Blue Insurance Company	192.19
Atlas General Insurance Services, LLC	**178.36**
Falls Lake National Ins Co	8.29
Falls Lake Fire & Casualty Co	117.14
Accredited Surety and Casualty	52.93
Swyfft, LLC	**173.91**
Clear Blue Insurance Company	156.56
Benchmark Insurance Company	17.36
Pets Best Insurance Services, LLC	**171.62**
American Pet Insurance Company	139.39
Independence American Ins Co	32.24
Top 20 Sub-total	**5,740**

Source: AM Best data and research

Exhibit 6

US P/C Industry: MGA Direct Premiums Written by Insurer, 2020

Affiliated vs Unaffiliated Managing General Agents ($ millions)



Source: AM Best data and research

written by MGAs: $3.4 billion DPW by an affiliated MGA, Maguire Insurance Agency, followed by $2.1 billion by multi-peril crop and crop/hail insurer, American Agri-Business Company.

Affiliated MGAs of four other US insurers—Scottsdale Insurance Company (Nationwide), ACE Property & Casualty Insurance Company (Chubb Limited), Florida-domiciled personal property insurer Universal Property & Casualty, and American Strategic Insurance Corporation (Progressive)—each generated more than $1.0 billion in premium. Universal generates its business (mainly Florida homeowners business) through an affiliated MGA that recruits and manages the network of independent agents through which the company transacts its business. Like Philadelphia Indemnity, Universal P&C generates its premium through affiliated MGAs.

Fronting Companies and Their Relationship with DUAEs and Reinsurers

Fronting arrangements are contracts between an admitted carrier and a company that has the ability to generate insurance business but may not possess the authority to write an insurance policy. The fronting insurance company can produce an insurance policy. The non-admitted company and the insurer will have an indemnifying agreement so the non-admitted company is still responsible for the contracts.

At other times, the insurer may act as a pass-through or fronting company for the business, which is then reinsured to a specialty reinsurer created by the producer or an unaffiliated reinsurer, making the reinsurer the party that assumes the economic risk for the business written. These are “pure fronting arrangements.” Sometimes a deal incorporates the use of a third-party MGA that produces and underwrites the business for a ceding insurer, which acts as the fronting insurer for a reinsurer. With the underwriting risk associated with fronted business transferred to the reinsurance companies, the key risk for pure fronting companies such as Markel Corporation’s State National is the credit risk associated with the reinsurer’s ability to meet the financial obligations of the reinsurance contracts.

State National Group, which was acquired by Markel for $919 million in 2017, illustrates the 100% fronting model. State National underwrites collateral protection insurance (CPI) and guaranteed auto protection (GAP) coverage that it retains on a net basis. However, most of its premium writings consist of business that State National reinsures at 100% with third-party reinsurers. Since the Markel acquisition, other new insurance company startups have stepped into the market with pure fronting models, focusing on organic growth through their relationships with MGAs and reinsurance partners. Some of these entities are willing to retain 10% to 20% of the risk, with their reinsurance partners retaining the rest.

Exhibit 7

Ten Largest US P/C MGAs

Ranked by 2020 Direct Premiums Written ($ millions)

MGA Name	DPW
Maguire Insurance Agency, Inc.	3,369
Rain and Hail LLC	2,174
ASI Underwriters Corp	1,540
Evolution Risk Advisors, Inc.	1,517
Diversified Services, Inc.	1,209
United Insurance Management LC	1,033
ARMtech Insurance Services, Inc.	898
Tower Hill Insurance Group, LLC	767
Starr Specialty	733
Summit Consulting LLC	695
Total	**13,936**

Source: AM Best data and research

The insurer with the real interest in the business can be an independent partner of the MGA or a captive risk-bearing insurer created by the MGA. MGA-owned captives are often incorporated outside the US, where the capital requirements are lower and the regulatory environment less stringent. The risk-bearing entity can be a reinsurer owned by the producing agent or an independent insurer acting as a reinsurer. In the latter case, the MGA's compensation would consist of the fee earned from producing and underwriting the business, along with a share of profits on the entire book of business. Such arrangements can be mutually beneficial because producing quality business is in the best interest of the MGA, in contrast to when they have no risk-bearing interest. Newer programs grow and mature on the paper of the highly rated insurers, while the MGA gains greater insight into the risks involved and how best to insure those risks. More MGAs are finding this model attractive, which has contributed to the emergence of the new fronting insurers.

In pure fronting relationships, the carrier retaining the business must ensure that the MGA's underwriting is up to standard, since the MGA does not bear the financial risk for the portfolio's profitability. When MGAs enter into agreements with fronting insurance companies, monitoring by each party is vital. MGAs often have full responsibility for product design and pricing. They underwrite, quote, bind, and service policies up to a specific amount of contractually stipulated authority. Such MGAs are often established when a startup wants to control as much of the insurance operation as possible but lacks the time or capital to do so like an admitted carrier. This makes MGAs attractive to fronting insurers and, as a result, the proliferation of new specialty commercial and surplus lines startups using fronting models has been fruitful for MGAs.

M&A Market for DUAEs Remains Robust

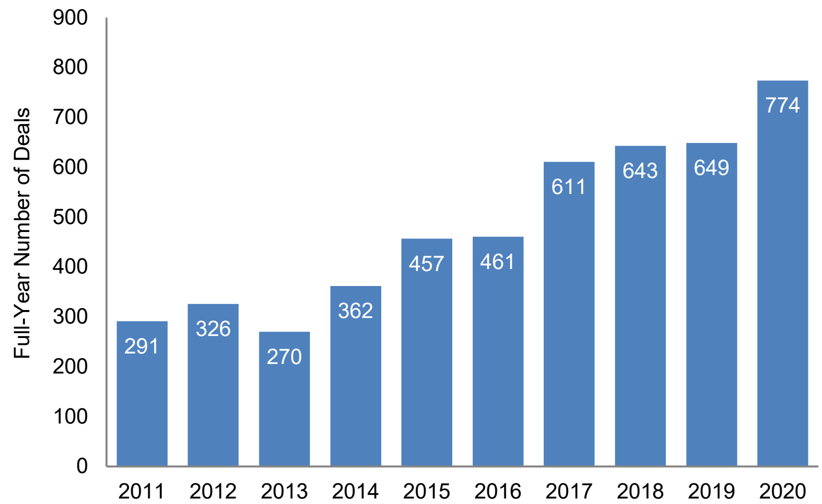
Opportunities for organic premium growth not driven solely by rate increases remain challenging in the P/C market owing to a competitive landscape and ample capacity. Limited growth opportunities have led to a spotlight on the few areas of potential growth, especially distribution, which involves insurance agents and brokers, including MGAs. This has sparked robust M&A, particularly in the last several years.

Aging agency and brokerage owners are looking at all-time high valuations and are finding viable deal partners in a larger group of buyers looking to satisfy growth desires. MGA product expertise is attractive for carriers seeking cost-effective growth. Insurers value not only the product and geographic expertise of specialty MGAs, but also their expansive distribution networks. Potential acquirers looking at large brokerages will likely focus on economies of scale in addition to revenue, growth, and diversification potential.

Specialty MGAs have been the subject of considerable interest by private equity firms, insurance carriers, and brokers looking for acquisition targets. Specialty MGAs with successful track records offer tremendous value tied directly to a history of generating underwriting profits, access to specialized business, and potential savings, since insurers do not have to set up in-house operations to underwrite the desired business. Interest has been particularly high among insurance carriers, although financial buyers (including private equity firms) are responsible for some of the highest-valued specialty MGA acquisitions in recent years.

Exhibit 8

Number of US and Canada Insurance Agency Acquisitions



Source: Optis Partners, January 2021

The onset of the pandemic in early 2020 slowed insurance M&A involving agencies and brokerages in the US, but activity picked up again in the fourth quarter. The consistency of profits, prospects for growth, and resilience of the agencies and brokerages despite various economic challenges have made them desired acquisition targets for capital-rich investors.

According to insurance agency consultant OPTIS Partners, 1,034 US and Canadian insurance agency deals were announced in 2021, representing a 30% year-over-year increase from 795 in 2020 (**Exhibit 8**). The fourth quarter of each of the last two years has been particularly active, with 384 deals in the fourth quarter of 2021, up 26% over the same period in 2020, which was up 68% over the same period in 2019. Private-equity backed buyers accounted for about 75% of the transactions in 2021. While most of these deals involved smaller firms, Optis reports that there were 18 transactions involving large agencies (those with $30+ million in revenue).

Considering the strategic interest of corporate entities, private equity players, and asset managers, as well as the deployable capital at their disposal, competition for acquisitions is likely to increase throughout 2022.

Innovation Can Help Generate Opportunities

The insurance industry has typically been slow to adopt new technology. Insurance companies have at times struggled with incorporating technological advancements that best serve their business needs, and the financial investment for new technological tools can be a significant headwind—trial-and-error can be costly.

MGAs and the other types of DUAEs are far more entrepreneurial by nature. MGAs that have the capital resources to introduce and implement new technologies have a competitive advantage. Finding the right MGA partners and successfully integrating new technologies into their operations can help insurers expand their product and geographic capabilities, providing insurers with similar competitive advantages.

M&A has brought capital, underwriting expertise, and customer experience capabilities from non-traditional sources to underwrite new risks across industries. Private equity and venture capital-backed investors remain interested in insurtech MGAs, particularly ones that have proven their worth. Insurtech MGAs also remain attractive investment and acquisition targets for many large insurance organizations, including ones that have sold legacy books to clean up their balance sheets, free up capital, and prepare their businesses for the future. Some insurtech MGAs are hunting for M&A opportunities themselves.

Technological capabilities provide opportunities for new product innovation that MGAs can capitalize on to grow their businesses. Deploying new digital capabilities and enhancing old ones has helped expand MGA sales and service-oriented proficiency, and enhanced their competitiveness. The economic challenges of the last two years have prompted MGAs to prioritize investments that focus on enhancing the experience of the ultimate customer. MGAs that have been able to use their specialty knowledge to access desired niche businesses have flourished and should continue to do so.

MGAs in the Life/Annuity Segment

The life/annuity insurance industry utilizes MGAs in a number of ways. Third party administrators (TPAs) may be involved in tasks such as consolidated billing to individuals, claims handling, and premium collection. MGAs also may come with a well-equipped distribution force, such as in the group benefits business, where there is a need for scale, relationships, and the ability to up-sell and cross-sell products along with administrative services. Smaller independent specialized agencies with niche products such as accident & health and supplemental health could also be effective in expanding reach for insurers.

Managing General Underwriters often help carriers grow in a certain line and bring premium to the insurer to start targeted products even as they improve diversification and develop product capabilities. The premiums going through MGAs, as measured by the NAIC filings, for life/annuity is less significant ($8 billion in 2020 compared to $49 billion for P/C).

As the pandemic reduced most in-person interactions and created new operational and communication hurdles for life/annuity insurers, MGAs increasingly attained more authority. According to NAIC statutory filings, over 90% of MGAs that contributed premium that totaled more than 5% of the insurer's surplus were granted premium collection authority in 2020, up from about 75% in 2019. In addition, automated underwriting and contract binding strategies have been more widely implemented to minimize wait times for younger policyholders (**Exhibit 9**).

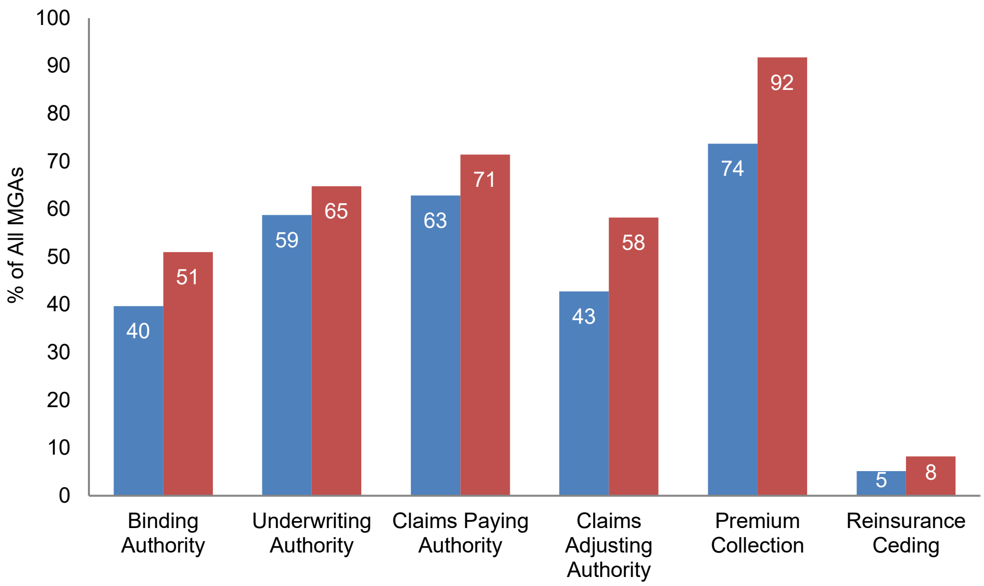
2022 and Beyond: Adaptability Will Be Key to Success

(Re)insurers will continue to value distribution partners that provide line of business and product expertise, as well as distribution capabilities in markets the companies cannot access efficiently on their own. (Re)insurers will seek to align with these partners as they pursue growth and profitability in a market that has been dynamic as it adapts to a new normal post-pandemic.

Because of the potential inflationary effect on expenses, DUAEs that find their profit margins squeezed may pivot and counter by raising commissions and fees. If expenses begin to grow faster than revenues, DUAEs may expand their product base to make up the difference if such an expansion could be achieved efficiently. DUAEs with diversified fee and commission sources should fare better in withstanding the difficulties of inflationary trends.

The current, challenging economic conditions, coupled with 2021's "Great Resignation," could be problematic for DUAEs that do not have adequate staffing and lack a strong pipeline for new hires.

Exhibit 9
Types of Authority Most Often Granted to US L/A MGAs, 2020



Source: AM Best data and research

These DUAEs could face tough times if they were to lose key management or staff members, especially if there is not a good succession plan in place. In addition, retaining top talent could impact the expenses of lean, newer DUAEs. Some market observers, however, have characterized the depth and quality of talent entering the MGA/DUAE market as significantly better than the talent that entered at different times in the past. The entrepreneurial MGA market has gained traction and proven to be formidable enough to attract underwriters with excellent track records from larger, well established insurers.

The desire to launch new MGAs remains, but new entrants must be mindful that carriers' expectations will be high. MGAs with poor claims experience or high expense ratios will likely struggle to prove their value. Larger, successful MGAs will be able to take advantage of opportunities to expand capacity and accelerate growth. Because of the trepidation of some carriers and capacity limitations in troubled lines of coverage, renewing capacity could shift somewhat, creating challenges for MGAs. Additionally, DUAEs that specialize in lines of coverage that are under pressure from yielding unprofitable results—such as commercial auto or D&O liability—could be exposed to capacity restrictions should results continue to trend adversely. As we get further away from the market disruptions caused by COVID-19 and closer to economic recovery, AM Best believes DUAEs of all types will continue to be a relevant part of the insurance value chain.

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SENIOR MANAGING DIRECTORS **Edward H. Easop, Stefan W. Holzberger, James F. Snee**

AMERICAS

WORLD HEADQUARTERS
A.M. Best Company, Inc.
A.M. Best Rating Services, Inc.
1 Ambest Road, Oldwick, NJ 08858
Phone: +1 908 439 2200

MEXICO CITY
A.M. Best América Latina, S.A. de C.V.
Av. Paseo de la Reforma 412, Piso 23,
Col. Juárez, Alcadía Cuauhtémoc, C.P. 06600, México, D.F.
Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)

LONDON
A.M. Best Europe - Information Services Ltd.
A.M. Best Europe - Rating Services Ltd.
12 Arthur Street, 6th Floor, London, UK EC4R 9AB
Phone: +44 20 7626 6264

AMSTERDAM
A.M. Best (EU) Rating Services B.V.
NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
Phone: +31 20 308 5420

DUBAI*
A.M. Best - MENA, South & Central Asia*
Office 102, Tower 2, Currency House, DIFC
P.O. Box 506617, Dubai, UAE
Phone: +971 4375 2780
*Regulated by the DFSA as a Representative Office

ASIA-PACIFIC

HONG KONG
A.M. Best Asia-Pacific Ltd
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827 3400

SINGAPORE
A.M. Best Asia-Pacific (Singapore) Pte. Ltd
6 Battery Road, #39-04, Singapore
Phone: +65 6303 5000

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