

Note: This session has live audience polling

Review & Preview

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Reinsurance/Fronting Carriers – Changes in Distribution

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This session has live Q&A – please submit questions via the “Ask A Question” icon in the session navigation bar

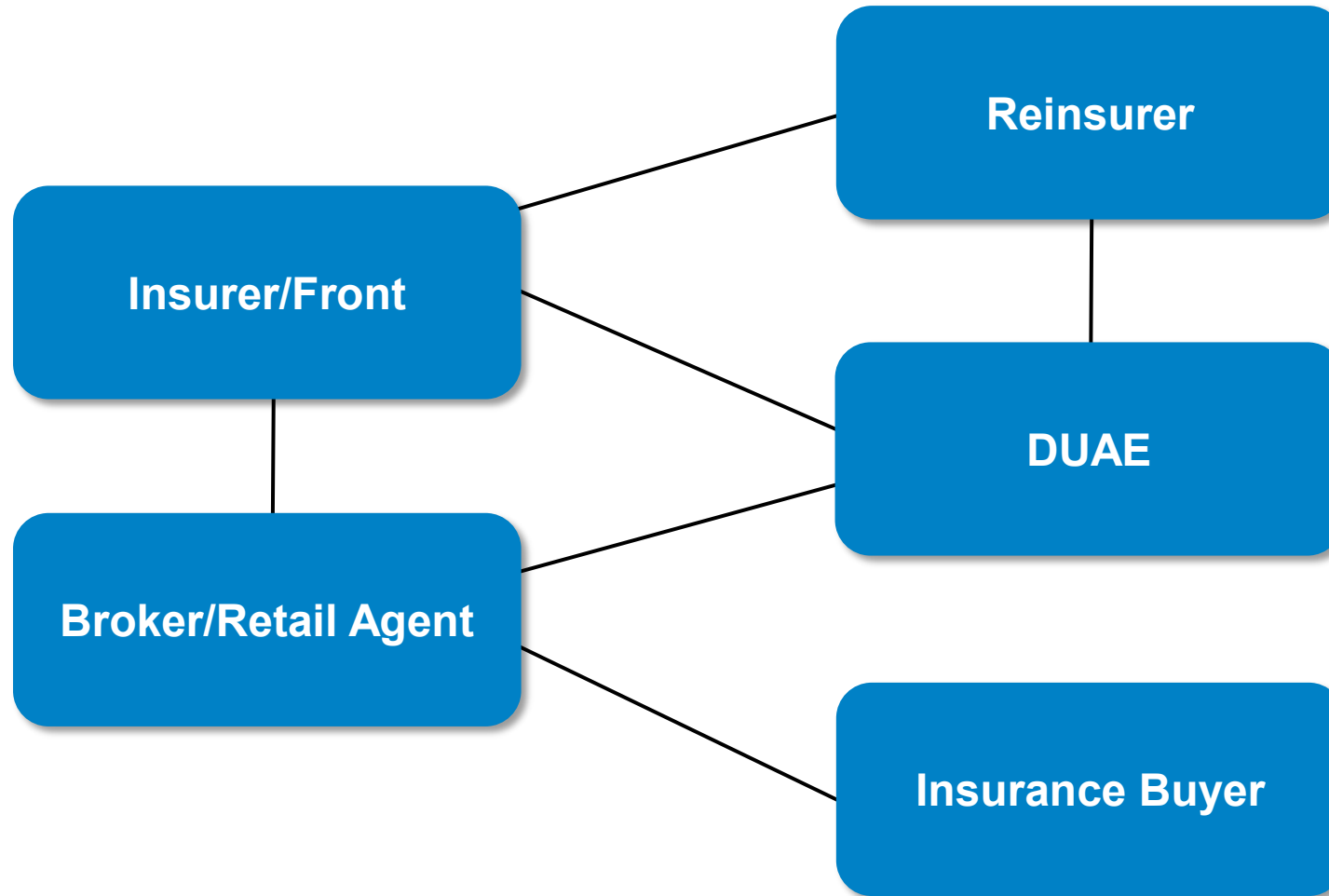


Agenda

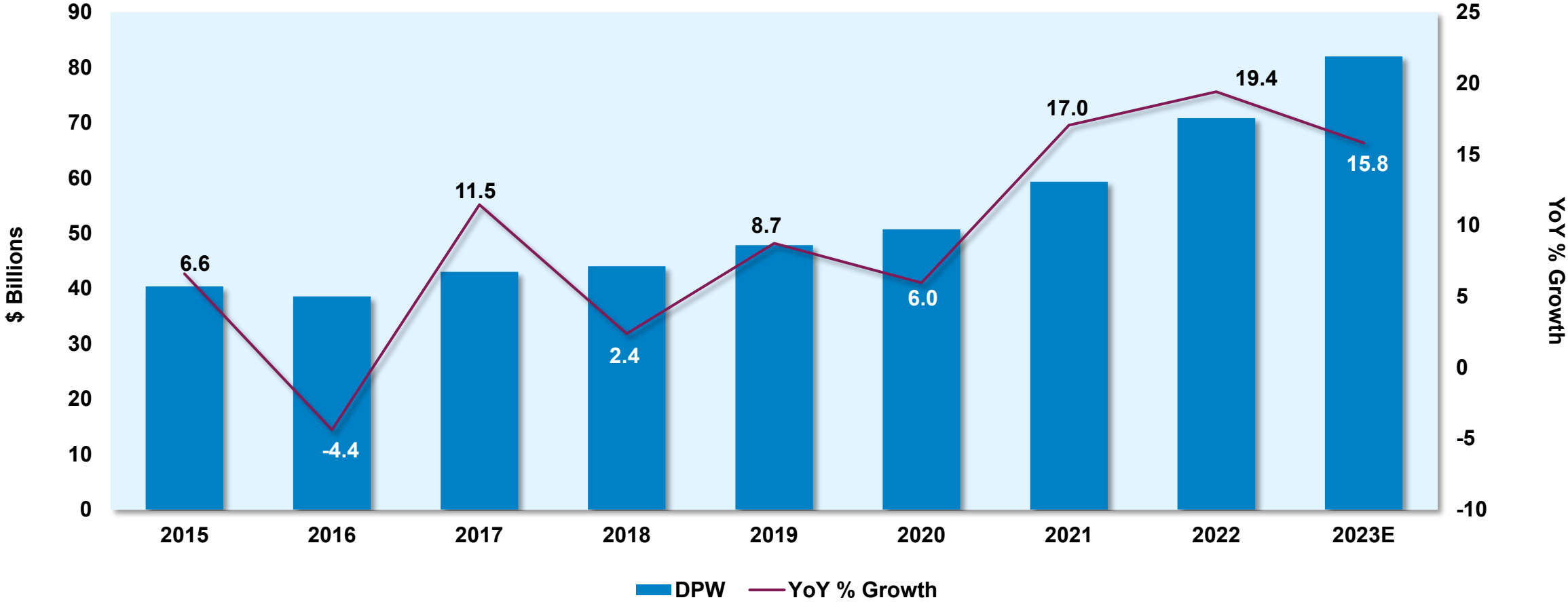
- **Global Delegated Underwriting Authority Enterprises (DUAЕ) Market**
- **Rise of the Fronts**
- **Spotlight on Ratings**
- **Looking Ahead**
- **Q&A**

Global Delegated Underwriting Authority Enterprises (DUAE) Market

Insurance Distribution Chain



US P/C Industry – MGA Direct Premiums Written



Market Segment Outlook – DUAE

AM Best recently maintained its Positive outlook for the DUAE segment, based on the following factors:

- Sustained performance and growth globally
- Ability to address underserved and emerging markets
- Technology and talent, which continue to drive innovation

Market Segment Outlook – DUAE (Cont'd.)

Factors partly countering these positives include the following:

- Tight capacity for certain risks
- Ongoing and evolving economic challenges that will likely impact underwriting and reserve margins
- Uncertainty looming over the fronting market

Polling Question #1

What do you think the US MGA growth rate in 2024 will be?

- a) 0% - 5%
- b) 5% - 10%
- c) 10% - 15%
- d) 15% - 20%
- e) >20%

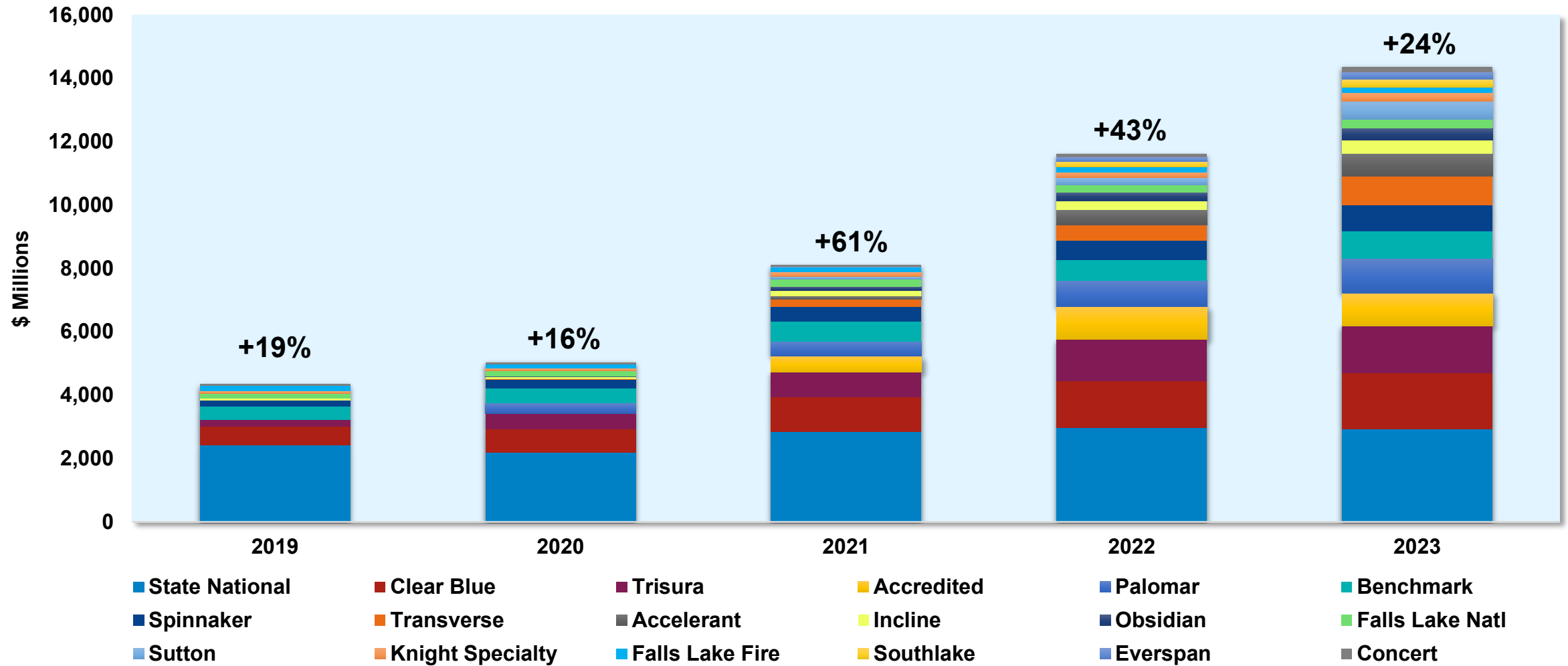


Rise of the Fronts

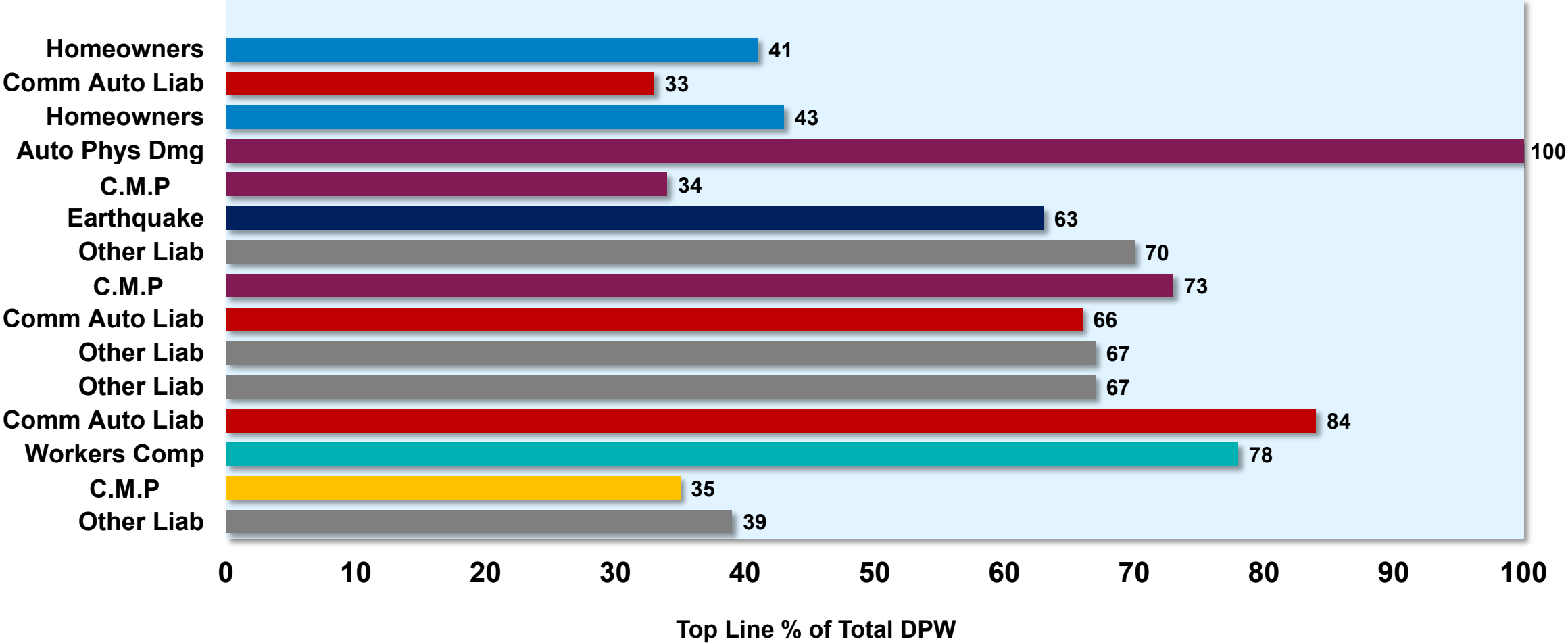
Rise of the Fronts

- Influx of capital
 - E&S growth
 - Management teams with extensive experience of specialty commercial and surplus lines risks
- Viewed positively by MGAs:
 - Broad, diversified, more permanent source of capacity
- Increased acceptance of MGAs that use fronting model by (re)insurers
- Reinsurer appetite for MGA/fronted business has grown
 - Reduction of reinsurance purchased by traditional insurance companies
 - Provides instant diversification – reinsurers looking to move away from property cat
 - Access to specialty/middle market that is not necessarily afforded to reinsurers in traditional carrier space
 - Alignment of interests is key

Fronting DPW Has Tripled Since 2019



Product Concentration – By Front



Spotlight on Rating Characteristics

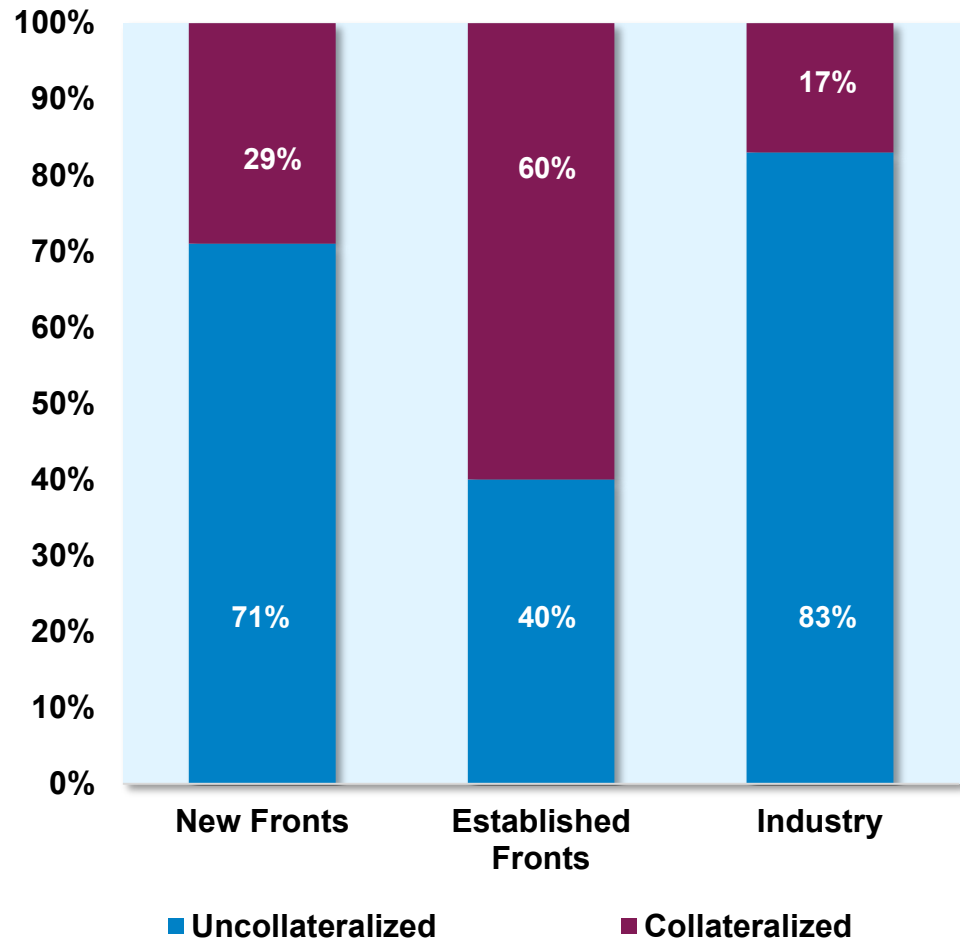
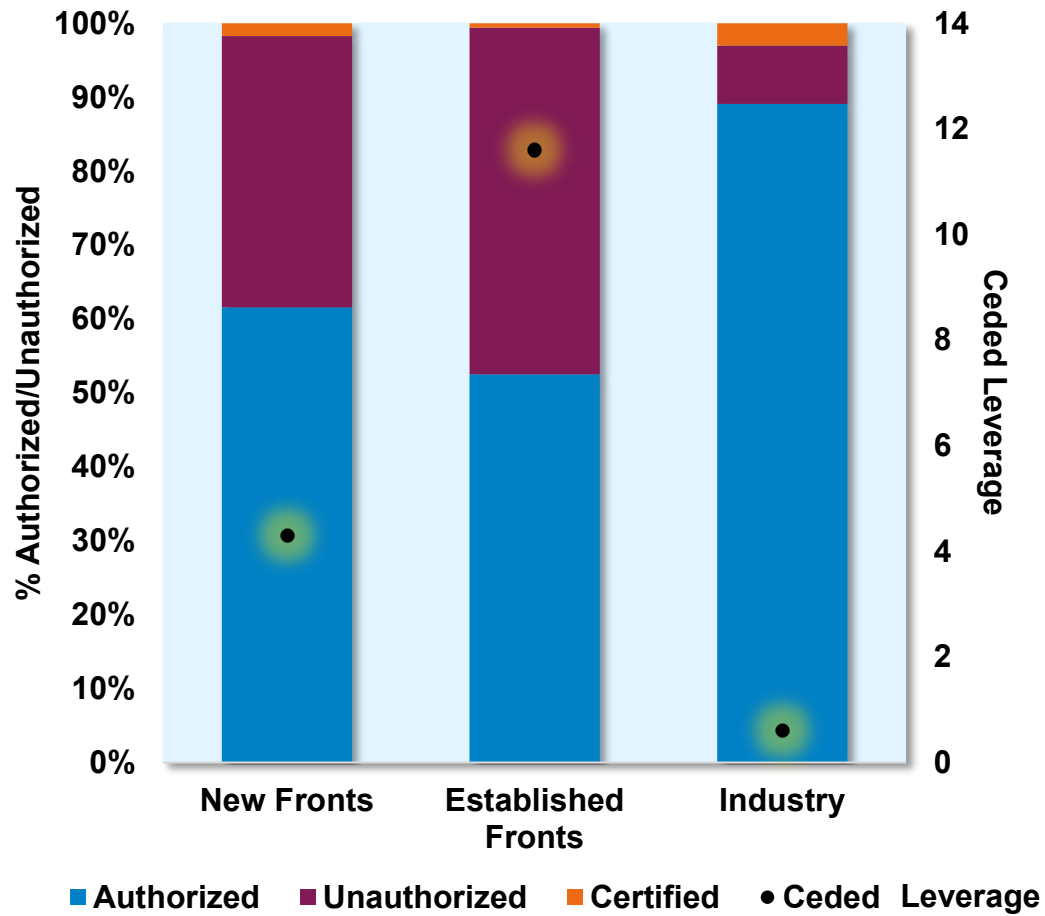
Though Rated Highly, Rating “Noise” in Fronting Market Has Emerged

				Assessments			
AMB #	Company Name	ICR	Outlook	B/S	O/P	B/P	ERM
18965	Accelerant US Holdings Group (G)	a-	Stable	Very Strong	Adequate	Limited	Appropriate
19023	Accredited Specialty Insurance Group (C)	a- u	Developing	Very Strong	Adequate	Limited	Appropriate
18922	Benchmark Insurance Group (G)	a	Stable	Very Strong	Adequate	Neutral	Appropriate
18868	Clear Blue Insurance Group (G)	a-	Stable	Very Strong	Adequate	Limited	Appropriate
18973	Concert Insurance Group (G)	a-	Stable	Very Strong	Adequate	Limited	Appropriate
18958	Everspan Group (SG)	a-	Stable	Very Strong	Adequate	Limited	Appropriate
22509	Falls Lake Fire and Casualty Company	a-	Negative	Very Strong	Adequate	Neutral	Marginal
14313	Falls Lake National Insurance Company	a-	Negative	Very Strong	Adequate	Neutral	Marginal
20781	Incline Insurance Group (G)	a-	Stable	Very Strong	Adequate	Limited	Appropriate
22046	Knight Specialty Insurance Company	a-	Stable	Very Strong	Adequate	Neutral	Appropriate
18956	Obsidian Insurance Group (G)	a-	Stable	Very Strong	Adequate	Limited	Appropriate
19014	Palomar Holdings US Group (CS)	a-	Positive	Very Strong	Adequate	Limited	Appropriate
18967	Southlake Insurance Group (G)	a-	Stable	Very Strong	Adequate	Limited	Appropriate
18968	Spinnaker Insurance Group (G)	a-	Stable	Very Strong	Adequate	Limited	Appropriate
18604	State National Group (SG)	a+	Stable	Strongest	Strong	Neutral	Appropriate
18947	Sutton National Group (G)	a- u	Negative	Very Strong	Adequate	Limited	Appropriate
18931	Transverse Insurance Group (SG)	a	Stable	Very Strong	Adequate	Limited	Appropriate
18944	Trisura US Insurance Group (G)	a-	Negative	Very Strong	Adequate	Neutral	Appropriate

Key Rating Characteristics of Fronts

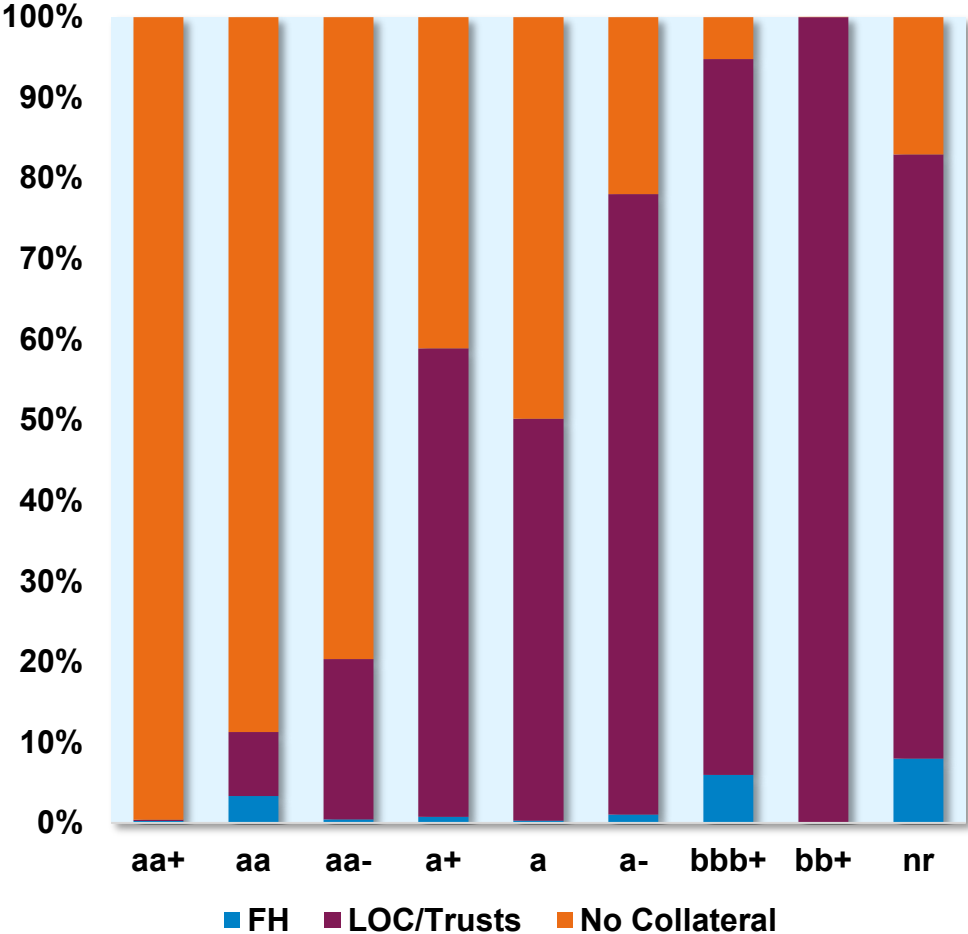
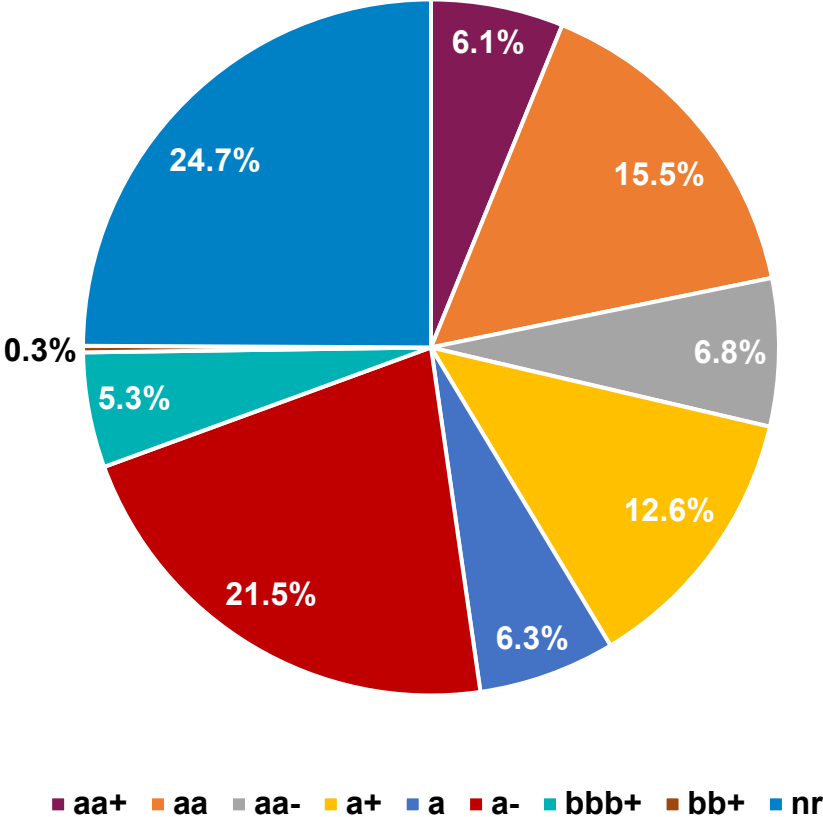
- BCARs are at strongest level for all rated fronts due to minimal risk charges for reserves and premiums
 - No (pure) or low (hybrid) retentions; more pressure on hybrids to retain more
- Evaluation of credit risk is of paramount importance
- Very high gross leverage, ceded leverage measures
- Tend to have more unauthorized/unrated reinsurers on panel than industry
- Tend to use LOCs as collateral more frequently than industry

More Use of Unauthorized, Collateralized Reinsurers in Fronting Market



Collateral Management Is Key

Reinsurance Recoverables by Rating



AM Best Rating Focus – Fronts

What can flow back to fronts' balance sheet?

- Reinsurance recoverables
- Caps and corridors
- Use of captives

Enterprise risk management policies

- Vetting of new programs
- Ongoing audits
- Changing reinsurer profiles
- Use of collateral

Vesttoo Discussion

Polling Question #2

How many fronting participants do you think there **will be** in 2024?

- a) Significantly more participants
- b) Slightly more participants
- c) About the same number of participants
- d) Slightly fewer participants
- e) Significantly fewer participants



Polling Question #3

How many fronting participants do you think **will be needed** in 2024?

- a) Significantly more participants
- b) Slightly more participants
- c) About the same number of participants
- d) Slightly fewer participants
- e) Significantly fewer participants



What's Ahead

Key Themes – Reinsurance

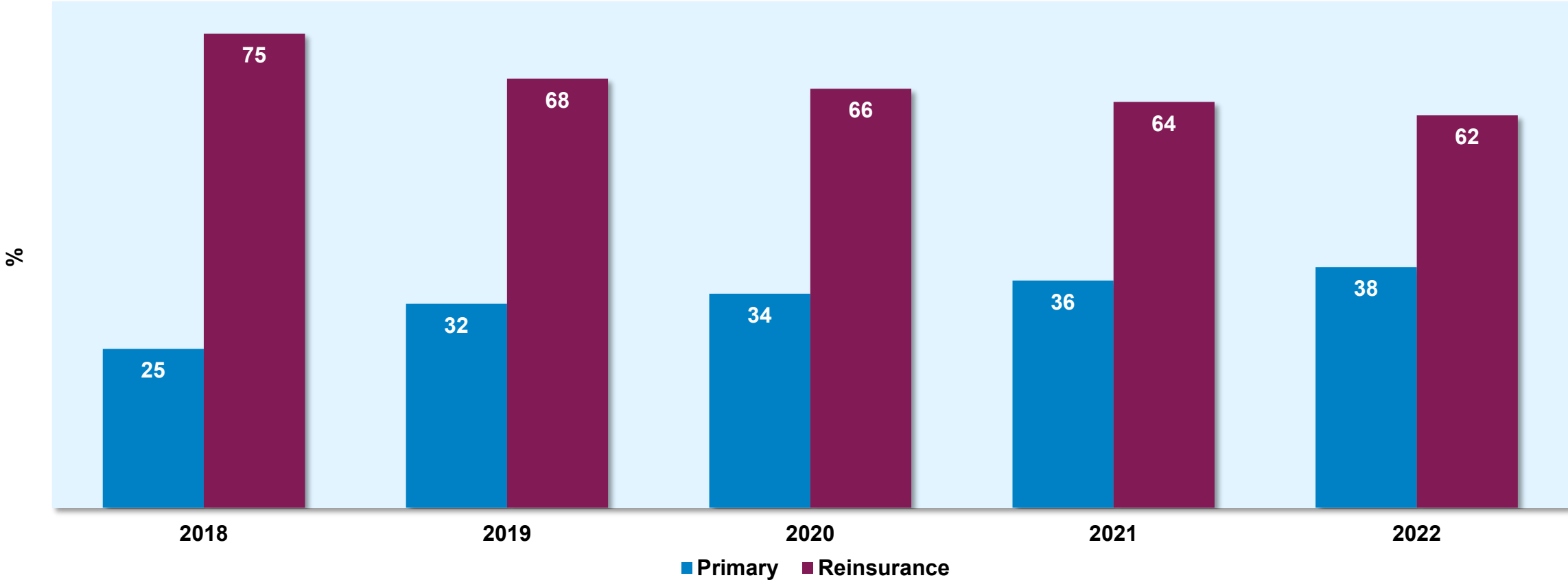
There is no capital shortage
but deployed capacity is selectively constrained

Results improving
but reinsurers are still catching up

Business models evolving
Is there a role for the specialist?

Based on the 25 largest reinsurance groups

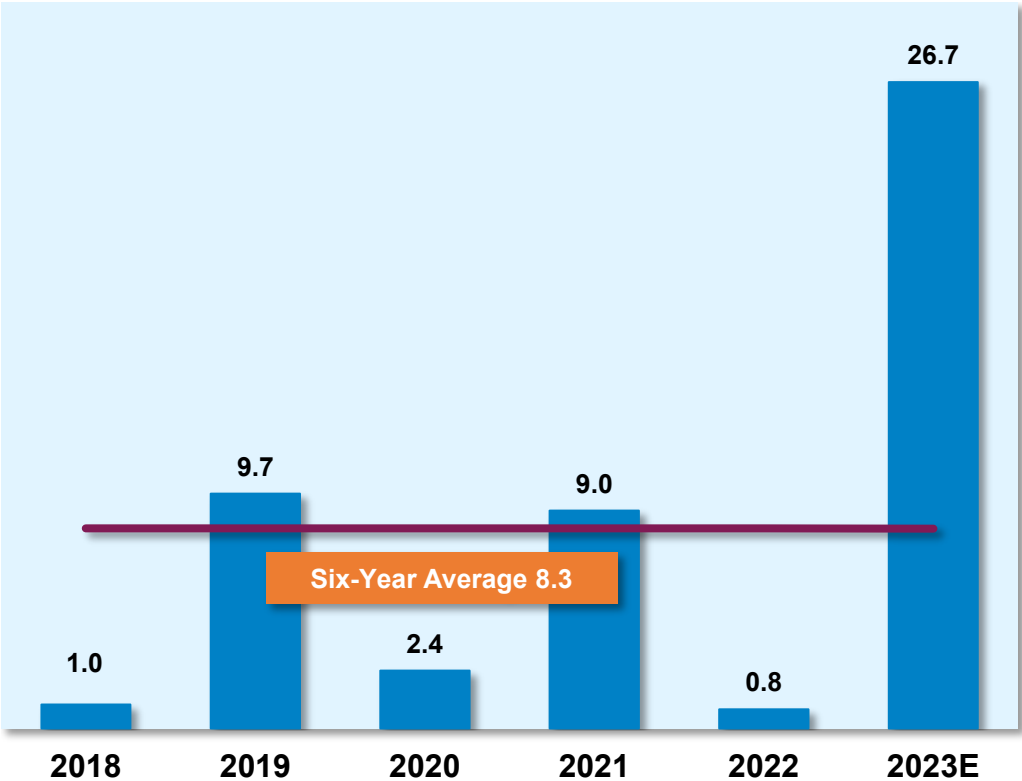
Global Reinsurance – Primary Insurance vs. Reinsurance



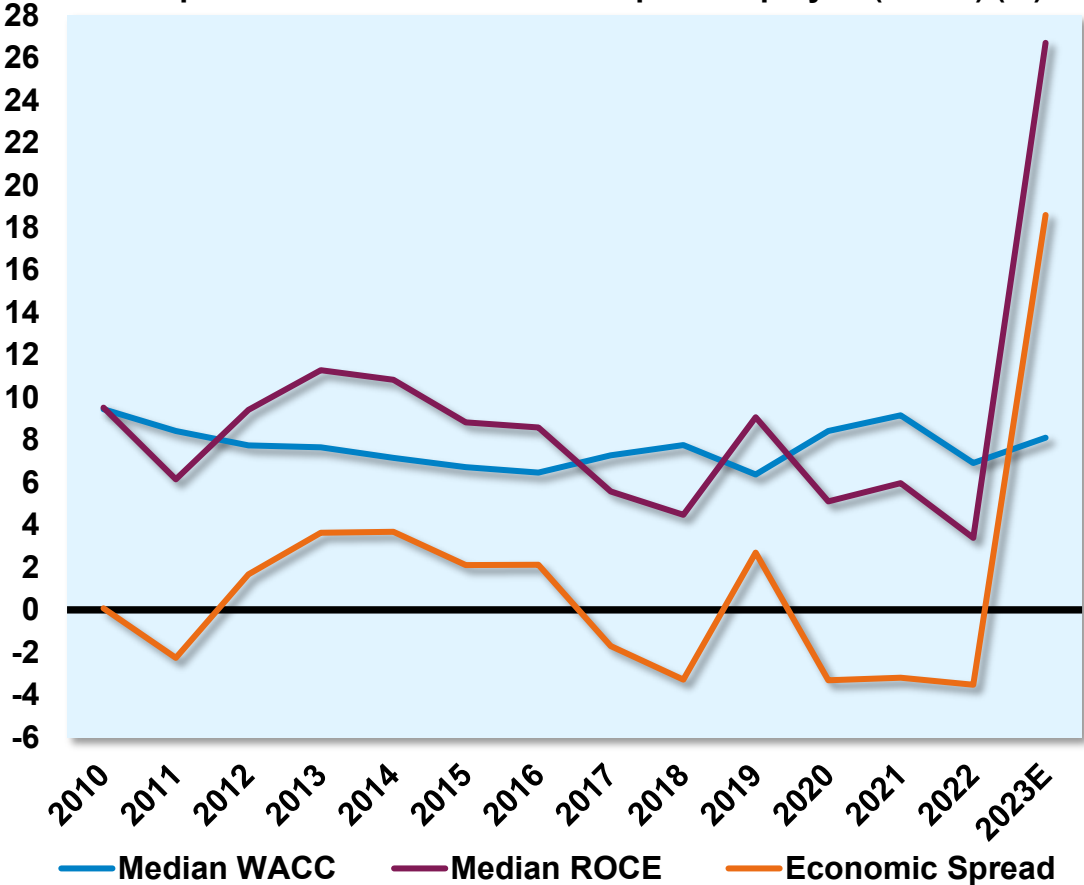
Based on the 25 largest reinsurance groups

Global Reinsurance Market Performance

Return on Equity (%)



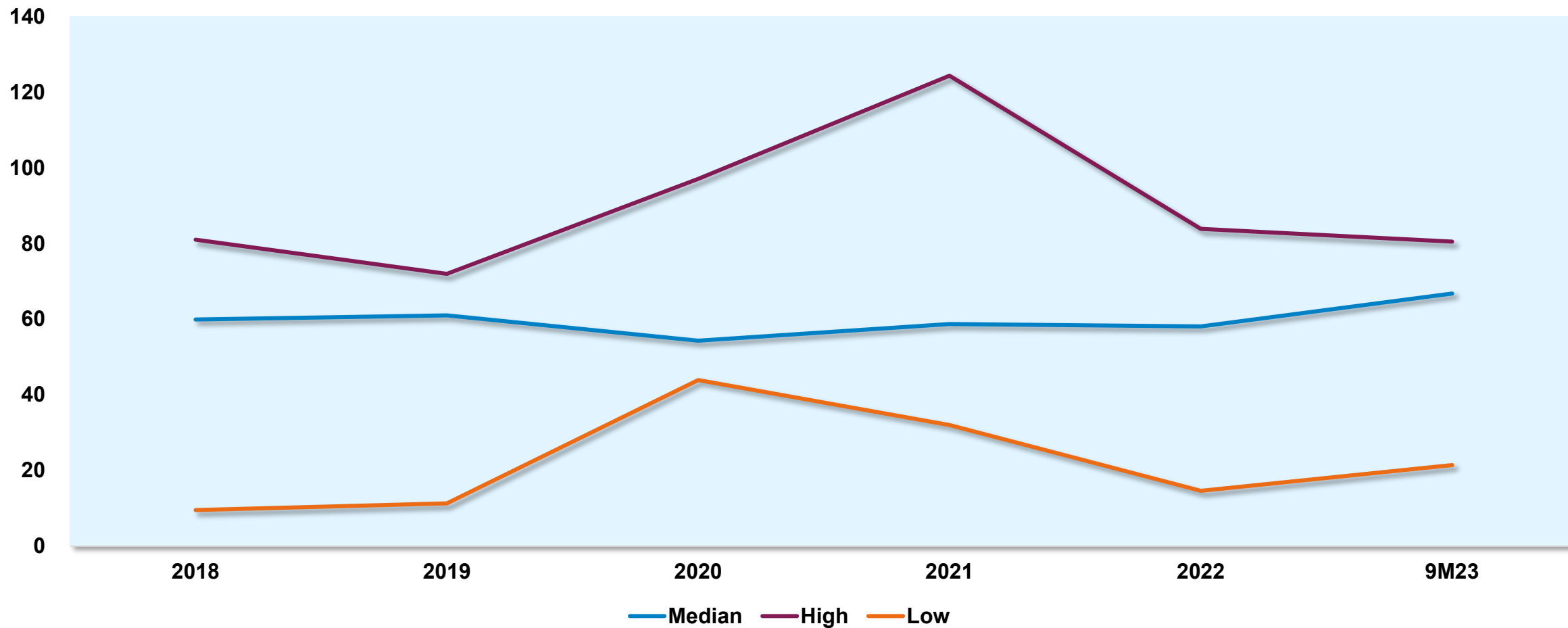
Reinsurers' Median Weighted Average Cost of Capital (WACC) Compared to Median Return on Capital Employed (ROCE) (%)



Sources: Return on Equity - AM Best data and research, WACC and ROCE - Bloomberg

Reinsurers Can Selectively Partner with Best Performers

Direct Loss Ratio



Key Takeaways

DUAEs

- Heightened need for differentiation
- Pockets of capacity constraints
- Captives/ILS

Fronts

- Continued ERM enhancements
- Ability to access capital more difficult
- Possible consolidation

Reinsurers

- More selective
- Portfolio plays
- Investment in MGAs

Q&A



Thank you!



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