

Beyond the Text Podcast

August 2024



TRANSCRIPT

Conning's Program Market Insights

Beyond the Text is a Conning podcast that features insights from its Insurance Research Department. Hosted by Alyssa Gittleman, a Director and Head of Consulting and Customer Operations for Conning Insurance Research. Alyssa will invite analysts and guests to provide insights on recent publications and emerging industry trends.

Beyond the Text is intended to provide just that: going beyond Conning's typical research. Conning's analysts have deep industry knowledge and come from various backgrounds providing a greater level of context on industry trends for insurance professionals.

[OPENING MUSIC]

SEGMENT 1 - OPENING

[Alyssa Gittleman (AG)]

Hello and welcome to "Beyond the Text," a Conning podcast featuring insights from our Insurance Research department.

I'm your host, Alyssa Gittleman, a Director and Head of Consulting and Customer Operations here at Conning. Join me as I welcome analysts and guests to provide insights on recent publications and emerging industry trends.

Today I am here with Lauryn Kothavale, a Vice President at Conning, and the author of our recently released MGA report. I'm also joined by Steve Webersen, a Managing Director here and the author of our Fronting report that was just released.

Before I go any further, I do want to mention that both of these reports are available to purchase on our website at Conning.com.

I wanted to bring these two analysts together today because their markets are closely connected with the majority of fronting premium running through MGA's.

Conning has been at the forefront of research on the MGA market with our first report published in 2014. We have been doing an annual report since then and started covering the fronting space in this report about five years ago. We then decided to do a standalone piece on the fronting market about two years ago given the strong growth in this space.

So, to kick this off, Steve, I was hoping you could share how Conning came upon this market and what's Conning's history since you've been in the space, as well as how it's evolved?

[Steve Webersen (SW)] (Time stamp - 1:39)

Yeah, thanks Alyssa. Sure, I'd be happy to. So, I guess I'd say I like to think we have the most comprehensive research on the MGA market, maybe a little biased, but I also would say I wish we had a grand design and foresight some 11 years ago.

But not sure any of us knew just how large and dynamic this sector would become and what it is today. So, we were looking at a couple of things back in 2013 when we started this, and one was just this growing acceptance of the MGA channel by insurers and reinsurers.

And secondly, we recognized that there was there was no real comprehensive set of information defining this market and sizing this market. So, we saw that as an opportunity to maybe differentiate ourselves and determine that we could create a universe of MGA's and insurers who write this business through statutory statement footnote information. You know the famous footnote 19, and it was, and it still is a laborious process to compile. But there's great data there that's available.

When we started this in our report in 2014, we identified something like 146 MGA's who were writing through 118 or so insurers. And today, if we look at our database, it's nearly 900 MGA's. And now there's almost 500 insurers and reinsurers utilizing this distribution channel.

And the identified MGA premium has grown from \$26 billion at that time to over \$82 billion for 2023. So, this growth has prevailed through soft market conditions, and it's really taken off with the hard market over the last few years.

So, I guess we'd say there's no single driver of the growth, [there are] several factors here. I'd say an overall trend has been maybe this shift and movement toward specialization and segmentation of risk, and that fits really well with MGA's; they've have expertise in in these discrete homogeneous classes of business. And then the carriers can benefit from this writing pretty large volumes of specialized SME business.

And the MGAs themselves have been attracting talent from many sources. You have professionals who can join fast-growing entrepreneurial entities and likewise private equity capital is attracted to funding these non-balance sheet distribution firms.

So, our study has evolved over the years. We added the survey feature a number of years ago. We've added Lloyd's data and most recently, we've added the fronting companies as Alyssa mentioned.

[AG] (4:54)

Wow. Thank you, that's quite the story.

Lauren, I was hoping you could share with us what some of the key trends and takeaways were from this year's study that was titled, *[2024: Managing General Agents -] Ahead of the Pack*.

[Lauryn Kothavale] (5:04)

Sure, Alyssa. So, six key takeaways of the study are MGAs, they've been on a roll for the last few years now and in 2023 they continued their momentum, outpacing the overall growth of the property-casualty market. We sized the US market at \$102 billion. This figure includes Lloyd's and our estimate for the unreported market.

MGAs just appear to have this winning combination made of top-notch talent, cutting-edge technology and capital.

The need for specialized expertise remains a primary factor of MGA growth, given their deep understanding of how to underwrite profitable programs. Technology presents significant opportunities for MGAs, yet simultaneously represents an essential investment that MGAs must be willing to make in order to remain competitive.

Lloyds continues to be the largest capacity provider in the US MGA market. In 2023, Lloyd's cover holders wrote premium of \$7.5 billion, which was 9% of the total market.

With uncertainty about the Vesttoo scandal and how that would affect the program sector, 82% of respondents of our survey said that the Vesttoo scandal had no implications on their business relationships. M&A activity involving acquisitions of US MGAs slowed in 2023; there were only 39 acquisitions, down from 61 the previous year.

SEGMENT 2 – [Audio Break]

[AG] (6:47)

Thank you for that insight. I was hoping you could share with us what some of your thoughts were for the outlook of the MGA space along with how this year is shaping up?

[LK] (6:57)

Sure, Alyssa. It's an exciting time and the MGA space continues to draw investor interest.

In the MGA sector, we've seen double-digit premium growth for the last three years and we expect to see that continue with interest rates and inflation stabilizing, M&A in the MGA space is expected to pick up. And continued innovation within this space continues as well. I think the trends discussed in this year's report will continue to play a factor in 2024.

With inflation and the dislocation in key property markets, the E&S market will continue to be a key driver for growth in the program market space.

While many large insurers concentrate on broader market coverage, they often overlook the specialized segments where profitability can be a challenge.

The success of MGAs is largely driven by their focus on the niche markets and specialization. By leveraging their market expertise and technology, they're able to find profits in challenging markets.

MGAs who participated in our survey expressed confidence in their ability to gain market share even in challenging market conditions. 89% of insurers who participated in our survey said they're expanding their use of MGAs. Some reasons for expanding their use of MGA's include growth opportunities, specialty lines opportunities and accessibility of business through MGA distribution.

With all the factors I just discussed, I think we will continue to see growth in the MGA space.

[AG] (8:41)

That's great. I look forward to watching how this year progresses.

Switching gears a bit, Steve, what can you share about the fronting market? What have been some of the bigger developments following the Vesttoo scandal from over a year ago now?

[SW] (8:54)

I'll touch on a couple of things here. So, I guess the first thing is what everyone kind of focuses on is just the continued growth. The sector grew 27% last year: it's now over \$15 billion in premium for 2023 by our account.

First-quarter growth, equally strong at like 26%, and maybe just to put this size into perspective, so the fronting market now accounts for 20% of the US MGA premiums, excluding crop insurance. So, it's a very important channel and source and where the business flows in the MGA space. Likewise, if you look at the fronting sector, it is ceding over \$11 billion in premium to the reinsurance markets. So, this is a two-way relationship.

Reinsurance is the lifeblood for fronting companies, but as I just mentioned, the fronting companies are an important source of premium for reinsurers and it's a deep panel of over 200 reinsurers that are supporting the fronting companies.

We had an overall theme in our study this year and that is the fronting business is more complex than one might think. This is evidenced in a few areas. One is just this dependence on reinsurance. There's also a high reliance on a number of third parties in kind of the "food chain" here. And then we've also seen a shift in the business model to greater retention by the fronting companies and that's going to mean there's probably going to be a need for more capital. And then if we look at the financial health of the fronts, it's kind of mixed results there and they've and they still got some concentration risk that's pretty substantial.

And then finally I would say you have a few companies that are and have been maybe under pressure and maybe you need to sell or have some sort of transaction. Most of these are due to parent-related issues. But at the moment the market seems a little bit stuck, there's no transactions happening.

And it seems to us there's a buyer or seller valuation gap as well as there's a heightened diligence bar and I think that's a bit of the hangover from Vesttoo that you referenced.

[AG] (11:28)

That's really interesting. I know in your study you included some outlook comments, but could you share some of those highlights with us?

[SW] (11:36)

I'd start by saying clearly the fronting companies have provided needed capacity or, maybe more accurately said, a conduit to capacity for this rapidly growing MGA market.

And we've talked about their share of the MGA premiums that's going to increase again this year just given the growth that we're seeing into 2024.

We've always talked about the underlying MGA growth being a driver of the fronting market, but actually I think the fronting companies have enabled this growth to a large extent.

We've been surprised that there's been no real consolidation. There's been no in-market mergers, especially since there are still many front companies that are not at scale yet. And this lack of scale is evidenced by their return on equity. It's not a level where it needs to be for this business model.

So, we've made this prediction in the past and I guess so far, we've been we've been wrong or maybe we've just been premature, and I guess we maybe modify that prediction and say when the growth slows - and it will - and when the soft market conditions return, then we're going to see consolidation.

That's that. I think it's just an inevitable but, so far if you look at the fronting companies, they've been able to grow almost as fast as they want or as fast as they can.

That will not always be the case, and that's what I think the consolidation is going to occur and I think when the market recognizes, there's probably not a need for 20-plus fronting markets out there. But in the meantime, the fronting companies are kind of enjoying the ride.

[AG] (13:37)

That's great. Thank you.

Unfortunately, that's all the time we have today. Thank you so much Lauren and Steve for joining us and sharing your insights and going beyond the program manager space with us. And thank you all for listening to today's episode of Beyond the Text. If you are interested in learning more about what you heard today, you can purchase our reports at Conning.com or you can always send your questions to us at Insuranceresearch@conning.com.

We hope you will subscribe to this podcast and join us for our next episode as we stay up to date on industry trends. Thank you.

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