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Fronting market keeps the faith

Reliable data on the business transacted through MGAs is scarce. But fronting companies offer a window into this highly dynamic market.

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The versatility of MGAs never fails to impress. Scroll through the list of products offered by the Underwriting Agencies Council, the Australian MGA association that boasts more than 100 members, and you can pinpoint coverage for a vast array of entities and occupations, from abattoirs to zoos and wildlife parks.

The transparency of MGAs is generally less impressive. Some MGAs identify the capacity providers behind their programs, but many do not. With a few exceptions, MGA markets worldwide are data deserts. A detailed review of insurance distribution in the EU published last December by the European Insurance and Occupational Pensions Authority does not even mention them. Many MGAs employ data in ingenious ways to price risk, but data about MGAs themselves is scarce.

This matters because, in some countries, MGAs are now playing a critical – and growing – role in the insurance value chain. In particular, they are serving as gateways for new technology that is helping the insurance market adapt to fast-changing risks and meet rising customer expectations. It is no coincidence that the growth of MGAs in the US has gone hand in hand with the growth of the E&S market, where more volatile risks are placed. Underwriters and technology professionals at MGAs are finding ways to price risks more keenly, transact business more efficiently, and – often – enhance the experience of both buyers and brokers.

As investment has continued to flow into the MGA sector, lured by these opportunities for differentiation, the sector's data gaps have become more apparent. In most markets, no reliable sources of premium data exist. In a few – the UK, Canada, Australia and New Zealand – high-level estimates of premium written through MGAs are published by their market associations. And in just two – the US and the Netherlands – extensive premium data is available. But even in the US, by far the biggest MGA market, the picture painted by the available data is far from complete.

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On the face of it, the US market appears to generate as much data about the business of MGAs as the Dutch market does. But the data collection process is very different. The 132 members of the Dutch MGA association, the NVGA, include brokers with binding authorities as well as fully fledged MGAs. The premium they write with delegated authority from local and international carriers accounts for about a quarter of the Dutch non-life market. NVGA members supply premium data to the NVGA themselves, whereas in the US premium data is reported by the insurance companies that provide MGAs with capacity.

In the US, regulators require only MGA premium that accounts for more than 5 percent of the policyholders' surplus of the carrier to be reported. This has perverse consequences. An MGA backed by a very large carrier with a surplus of, say, $2bn (qualifying for AM Best's largest financial size category of XV) would only need to report an MGA relationship worth $100mn or more. By contrast, a mid-sized carrier with surplus of, say, $100mn (AM Best financial size category VIII) would have to report any relationship of more than $5mn.

Our analysis, based on the latest US reporting, suggests that this distorts the regulatory data to such an extent that it should not be relied upon to measure the size or growth rate of the US MGA market. Too much is left out. To take one of the most striking examples, Amwins, the largest US wholesale broker, wrote approximately $5bn in delegated authority premium last year. But the carrier data reported so far reveals just a tenth of this, or $509mn.

Premium written by other large players in the US MGA market is similarly under-reported. Bill Goldstein, the CEO of TIH Underwriting, told *The Insurer* earlier this month that one of its businesses, the property catastrophe-focused MGA AmRisc, writes over $2bn of premium annually. But less than half that sum is recorded in the 2023 regulatory filings of AmRisc's US capacity providers. Premium for the account of Lloyd's syndicates and other foreign insurers is of course omitted, but the inconsistent reporting requirements for US carriers are also responsible for large data gaps.

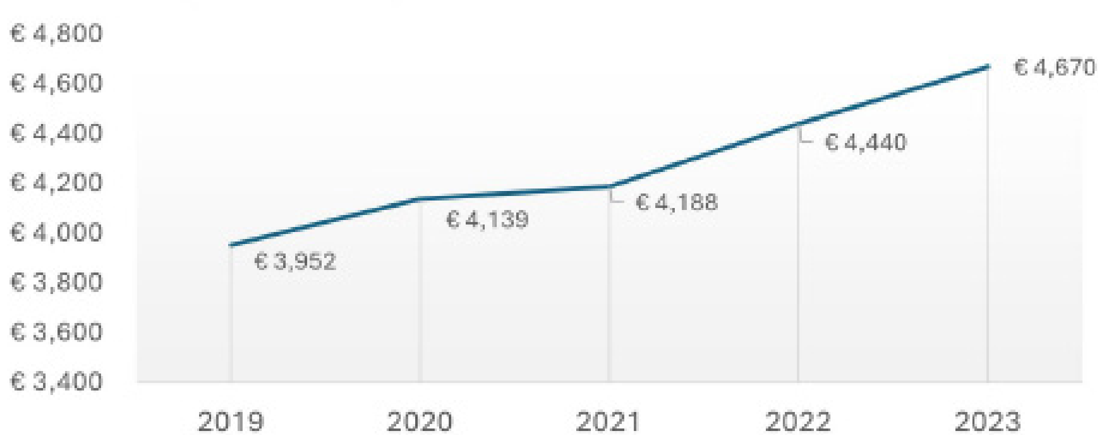
Still gas in the tank

In one important respect, however, US regulatory data does afford a valuable insight into the health of the MGA market. Fronting companies that are entirely dedicated to supporting MGAs are only required – like other insurers – to report MGA relationships that exceed 5 percent of their policyholders' surplus. But in their case, the entirety of their direct written premium derives from MGAs, so their filings can be used as a gauge of the market's vitality.

In recent years, fronting companies have emerged as the biggest "fuel tank" providing capacity to US MGAs, overtaking Lloyd's syndicates, which historically held this role. The most recent fronting company data indicates that this tank's total capacity is still growing, albeit at a slower rate than previously. MGA premium written with the support of 16 of the leading dedicated fronting groups rose by almost 25 percent to $15.85bn in 2023.

State National, the largest and most mature of the US fronting companies, wrote just 3 percent more premium in 2023 than in the previous year. But "other fronting" premium booked by State National's parent company Markel was up 52 percent on the year at $840mn. This business, backed largely by ILS reinsurance capacity managed by Markel's Nephila Capital subsidiary, brought Markel's total fronting premium up to more than $3.7bn, an 11 percent increase.

Uncommonly transparent: Dutch Delegated Authority Business, GWP €mm



Source: NVGA

Growth rates for US business at other fronting companies were widely dispersed. Clear Blue's direct premium was up a fifth to $1.8bn; Trisura's was up 11 percent to $1.45bn; and Accredited's was flat at just over $1bn. A little down the field, Accelerant saw its US premiums grow by more than 48 percent to $710mn and Transverse recorded growth of more than 87 percent to reach $904mn.

Fronting companies have yet to gain much traction outside the US, but this is likely to change as demand from MGAs for capacity grows. State National this year set up shop in the UK through a partnership with Markel's international division. It joins Accelerant, Accredited and Bridgehaven in offering fronting capabilities in the UK, home to more than 300 MGAs accounting for an estimated 10 percent of the country's non-life insurance market.

Despite intense competition, the US fronting market continues to attract new entrants.

Wherever it takes place, fronting can be a challenging business, requiring close scrutiny of the MGAs seeking capacity and watertight reinsurance coverage. In the 1990s and early 2000s a number of US program carriers collapsed after becoming mired in underwriting losses that triggered disputes with their reinsurers. Successful fronting companies must address a range of financial, operational, strategic and compliance risks.

Some of the financial challenges are illustrated by the travails of Gateway Insurance, an Illinois-based commercial and personal auto insurer that was acquired in 2020 by Buckle, an insurtech offering coverage to rideshare and delivery drivers. Buckle pivoted to fronting last year but Gateway's surplus collapsed after it proved unable to replace reinsurance from Corinthian Group's Osprey Re – a collateralised reinsurer impacted by fraudulent letters of credit issued through Vesttoo. Gateway wrote $74mn in premium through five MGAs last year, but its 2023 annual statement records that it has "ceased writing new business until capital levels are restored".

Notwithstanding the risks and the intensity of local competition, the US fronting market continues to attract new entrants – exemplified most recently by Emerald Bay Risk Solutions, an A- rated business backed by Bain Capital and other investors. Emerald Bay will be writing business on both an admitted and a non-admitted basis and plans to retain a 20 percent share on most of the programs it supports. In a crowded market where strong trust-based relationships are essential, Emerald Bay has billed itself as a "collaborative underwriting carrier".

Collaboration matters in continental Europe too, but the local fronting market is far less crowded. Only two fronting companies, Accredited and Accelerant, have made inroads into continental Europe. Accredited's Malta-domiciled subsidiary, Accredited Insurance (Europe), has yet to publish a solvency and financial condition report for 2023, but Brussels-based Accelerant Insurance Europe (AIE) has.

Accelerant began life in Europe in 2018, expanding to the US from 2020. It prefers to call itself a "data-driven risk exchange" rather than a fronting company and its model does have some material differences from traditional fronting carriers, including the offer to MGAs of a five-year capacity guarantee (subject to a loss ratio cap and other conditions). Accelerant sees a large target addressable market in continental Europe, noting that its forecast premium levels of €487mn in 2025 and €543mn in 2026 are less than 1 percent of the total SME insurance market in the territories where it does business.

“The MGA market in Europe is growing at a rapid pace,” AIE notes in its latest report, although it does not quantify this growth. The company has set up a dedicated distribution team for the European Economic Area with a particular focus on opportunities in Germany, France, Italy and the Nordic region. “AIE is certain it can profit from this diverse market,” the company’s management opines.

Fronting companies have powered the rapid growth of the US MGA market in recent years and they continue to do so. There is still gas in the tank and investors willing to replenish the tank, as Emerald Bay’s roster of private equity investors shows. Outside the US, MGA markets are for the most part less developed, more fragmented and more opaque, but the attractions of the MGA business model to underwriting talent and to technology investors still apply. For enterprising fronting businesses this should spell opportunity.