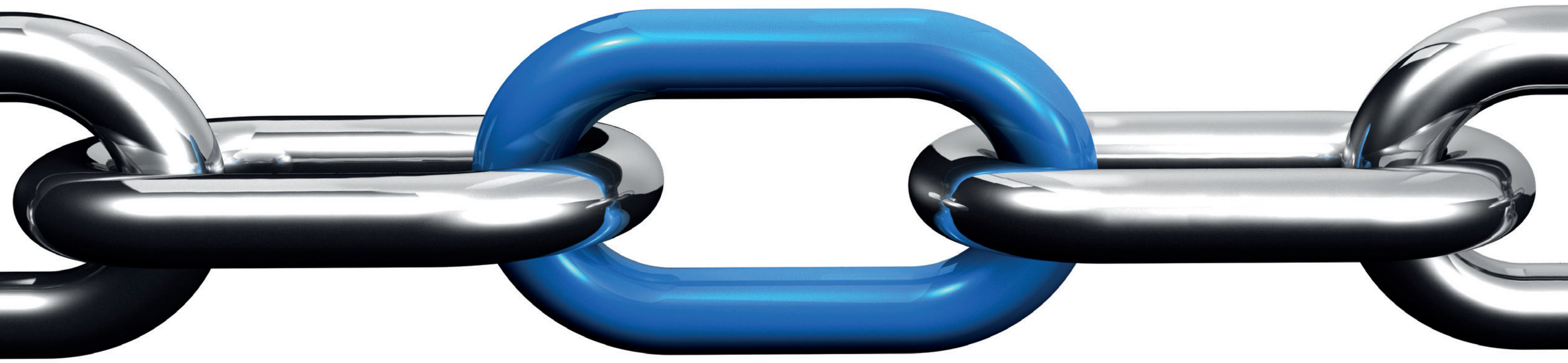
THE RSG VALUE CHAIN



Kieran Dempsey tells *IQ* that, with 23 MGUs in its stable plus a new reinsurance vehicle, RSG Underwriting Managers is breaking new ground

Recent years have seen the evolution of managing general agents/underwriters (MGAs/MGUs) as both vehicles and partners for InsurTech, as a major link in the chain between brokers and capital providers and as serious rivals to the traditional insurer model.

Kieran Dempsey, Ryan Specialty Group (RSG)'s chief underwriting officer, is responsible for supporting the underwriting for RSG's 23 MGUs, binders and delegated authorities, and is administering a development phase that is blurring the lines between the "traditional" role of binders and the evolving role of the MGU.

RSG is betting a stake of its own in its MGUs, demonstrating its commitment to delivering profitable growth, alongside its capital providers. Dempsey acknowledges that the rise of the MGU has contributed to that blurring of the lines in the insurance industry.

"MGUs typically provide some of the services of an insurer but without the capital, and they are generally viewed as being closer to distribution than to the risk," he says.

RSG's major alignment step has been the creation of Bermuda-based Geneva Re. Announced in May 2019 as a joint venture with US insurer Nationwide (S&P A+, AM Best A+ XV), RSG and its investing capital providers provide 50 percent of the company's capital, functioning as a reinsurance vehicle for its MGUs.

The credit ratings strength afforded by this "strategic partnership" provides a reinsurance foundation that underpins RSG Underwriting Managers' (RSGUM) many businesses.

"It's a vital mechanism for us to be able to participate in the risks the businesses are underwriting," says Dempsey.

The RSG CUO underlines the long-term strategy of the company's founder, Pat Ryan, to ensure the group remains closely aligned with the goals and interests of capital providers. In an era of greater crossover between the new coverholders and traditional capacity providers, he underlines the importance of that commitment.

"In the last few years, we've been thinking about how to align ourselves with the capital but without replacing it. That has been Pat Ryan's goal all along, to show alignment but not to displace anyone," he says.

"It's important to emphasise that this is only with the express approval of our capital-providing partners. It's also important to stress that it's within certain limits, because we simply don't have the capital to take the leading role, even if we wanted to – which we don't," Dempsey adds.

"RSG is now an investor, putting our own skin in the game, and so far it's working well.

"Most capital providers have already welcomed the new alignment it brings. Alongside our other investors, we've deployed capital in the 5 to 20 percent range, depending on the desires of the current capital support."

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RSGUM plans to increase the volume of capital invested, not through raising percentages but by taking a stake across an increasing number of its programmes, provided the other investors approve.

"So far it's going well. Naturally it's easiest on syndicated programmes, for which leaders will request a specific percentage, because we're not trying to lead, but to be just one of several other investors towards the bottom of the slip," Dempsey explains.

Niches

RSGUM's businesses are focused on niches designed to appeal to capital providers.

"Our list of capital providers is an extremely broad one. There are some big carriers providing capital, and Lloyd's has a large chunk of our business. We do business with all those that support an MGU strategy and are interested in our unique value proposition," says Dempsey.

"Capital providers aren't going to pay us to do something that they can do themselves. They're looking for profitable niches. Generally speaking, they value our differentiated underwriting access to a geography they can't get into themselves, and deployment of technology they don't want to have to develop themselves."

He emphasises that it does not attempt to be all things to all people.

"We're not everywhere, and we don't provide all excess and surplus specialties. We don't have an aviation or an environmental risk practice, for example," he says.

Dempsey adds that the group's approach to acquisitions has not been opportunistic, but rather about finding businesses that deliver profit and fit the right culture.

However, through some 12 acquisitions and 11 de novo formations, RSGUM's spread of classes is significant, ranging from a slew of US commercial lines-focused businesses to a Latin American unit based in Miami and European business via London, Barcelona, Copenhagen and Stockholm.

For 2019, one major technology investment across the business has been to innovate a digital platform and marketplace for small businesses.

"The vision is for retail agents and brokers to go online and not only receive multiple quotes for multiple products but then bind and issue on one single platform. We're developing that in-house, on our own platform," Dempsey says.

Saving costs for small insureds and retail brokers is at the heart of this vision, he explains. Instead of multiple portals and platforms to compare quotes, technology can make the quoting and placing process easier, he suggests.

"Pat Ryan said years ago that he was going to find a way of removing costs in the chain for small businesses buying insurance, and the first step is to make the buying process more efficient. We're committed to the retail producer and all of our products are designed to enhance the capabilities of the retail broker."

Firm response

MGUs' attractiveness to capital providers depends on their ability to provide relatively quick entry and exit from specialty classes of business. Dempsey says that MGUs can bring programmes and innovation to market faster and more cheaply.

Those with syndicated support can provide greater stability in hardening markets, because a portion of the subscribing capital can enter or exit without disrupting the core programme, he suggests.

"RSGUM is at the forefront of MGU innovation and distribution and well positioned to adapt to all market conditions," he says.

"With the variable cost model, capital providers can access business quickly without the significant fixed costs associated with investing in people and technology. This is especially beneficial in a hardening market."

The market is not hardening across the board, Dempsey explains, but firming up in response to investor pressure for better returns and because of claims within some lines more than others.

"Firming pricing is due to claims pressure and demand for better returns rather than a shortage of market capital. We're in a hardening market, in that we're seeing rate increases on the lines that need it most," he says.

Professional and general liability, directors' and officers' (D&O) liability and medical malpractice have been hard-hit, he notes, while initial public offerings by US firms have also been battered by D&O claims activity.

"New markets will eventually come in to take advantage of the rising rates. MGUs provide the quickest access to this business," he concludes.

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Kieran Dempsey is CUO of Ryan Specialty Group