Ryan Specialty Holdings Inc. - President and CEO at Trisura Specialty Insurance Company

Interview conducted on March 03, 2023

Topics
E&S Market, MGAs/MGUs, Wholesale Market, Commission Structure, Consolidation, Pricing Cycles, Insurtech, Ryan Specialty Group

Summary
A Tegus client seeks objective viewpoints on Ryan Specialty and industry dynamics and trends. The President and CEO at Trisura Specialty Insurance Company explains the shift towards the E&S space since 2015-2016 due to the lack of adequate rates and terms in the admitted market. They discuss the differences between wholesalers and the quality of MGA operations, predicting further consolidation in the wholesale brokerage and retail broker side in the next three to five years. They also touch on the potential for direct distribution and digital platforms in the insurance industry, noting that most commercial businesses still prefer to have an agent involved in the process. The CEO praises Ryan Specialty Group for their dynamic approach and strong team.

Expert Details
President and CEO at Trisura Specialty Insurance Company The expert has 25+ years of experience in the insurance space and can speak on Ryan.

President and CEO at Trisura Specialty Insurance Company, Trisura Insurance Company and Bricktown Specialty Ins. Co. Expert can speak to reinsurance and has over 25 years of experience running front carriers or reinsuring them. Expert can also speak to the county mutual business, and more specifically, the Texas county mutual auto insurance market.

Q: Can you speak to the competitive dynamics in the speciality insurance brokerage space? What companies are you most familiar with? Please elaborate.
A: Yes, Ryan Specialty Group, AmWins, Truist/CRC, and RPS (owned by Gallagher). We work with all of them as well as XPT.

Q: Can you speak to opportunities for growth and risks associated with the speciality insurance brokerage space? Please elaborate.
A: Yes, business continues to move to the E&S/Specialty space and the market is still considered to be "hard" in several pockets. When the market softens that's when these companies start to lose some steam, but we don't see that happening for a couple more years. Capacity is still very tight, and with inflation, and so forth we don't see prices dropping.

Q: Can you speak on Ryan Speciality Group and it's position in this industry?
A: Yes, they are the market leader in many areas especially with their purchase of All Risks. They are also a huge player in the MGA/Delegated Authority Space.

Tegus Client
Hello, thank you for doing this call. I am researching Ryan Specialty and just looking for objective viewpoints. And I'd say just trying to learn more about them specifically and some of the trends they're exposed to. And then maybe understand some of the industry dynamics here and especially given you kind of have this

market structure between retail brokers, wholesalers, carriers, MGAs, MGUs, all that stuff and understand a bit of the dynamics and trend there better as well. So I'd just be curious to hear a little bit about your background of the space of all those things kind of your levels of familiarity between them and where your experience in specialty insurance has primarily been.

President and CEO at Trisura Specialty Insurance Company

Yes, it's hard to believe, over 30 years now in the insurance and reinsurance industry. In '99, I went over to build out the fronting operation of a company called the State National Companies, who were one of my clients at the time when I was a reinsurer, so it was a nice fit.

And I'm not sure how familiar are you with the fronting industry, but the State National ended up becoming the most successful front company in its space, sold the first time went public at two and a half times book and then went private to Markel for just under three times book value.

And that let the cat out of the bag about how basically profitable and how much money you can make in the fronting business, if you did it well. And that also coincided with the emergence of MGAs and a lot more capital in the last 10 to 12 years flowing into the MGA/MGU space. And like you want to talk about right in specialty, they are also, have a huge MGA/MGU division within their organization as well. But from the most part, I've been on the E&S side, the admitted side and in the specialty insurance space, I'd say, for pretty much all of my career.

Tegus Client

All the specialty companies speak to this kind of broad-based structural shift of some of the admitted market into specialty for a variety of reasons, lack of adequate rates, terms, et cetera. Just curious how you think about the validity of that, how long that could go on? And if there's any sort of risk you could see to that trend?

President and CEO at Trisura Specialty Insurance Company

Yes, it's really interesting. I thought in 2015, 2016, business started shifting more to E&S as a lot of admitted companies, especially in the commercial auto space and others were just getting hammered. And they were trying to raise rates, but sometimes different departments of insurance are difficult to raise rates with and it takes a lot of time. So what was happening as a lot of, what was probably traditional business started moving over to the E&S space where they can move rates quicker and so forth.

And this started to be a trend in probably 2015, 2016 and has just accelerated exponentially since then. And one of the big reasons for that was COVID-19. When the pandemic hit, not only did a lot of companies face a lot of issues, but most of these departments of insurance, they really got hammered, they lost people.

People couldn't work from home very effectively, rates could get approved. Like for instance, in California, it can take 18 months to two years to get a rate filing approved. And so all these states, I would say, a good majority of the states started allowing people just to move the business to E&S paper where you don't have to file rates and forms and you can pretty much charge what you want.

It's kind of more like the Wild Wild West. So the term specialty, I think, is a very broad brush. When I think of specialty, I do think of more the business in the E&S side, but then others would say that, hey, if you focus on surety, only you're a specialty insurance company and that's admitted if you're just a work comp carrier, you might also be considered a specialty insurer.

So really, anything that's not what I would call homeowners, traditional vanilla business should fall on that specialty side. And then even as you get into the E&S side, you get deeper and deeper niches, which are even more specialized. So it's interesting. But when I think one of the better specialty insurance carriers, I usually think of Kinsale, RLI, Markel, people like that, that have truly been specialty, large E&S writers, Berkeley, and they've been doing it very profitable for a number of years.

Tegus Client

Got it. And to that point, how much does the rate environment or hard versus soft cycle impacts this, given I would think in a harder cycle, you can't get the rate you need and so things shift even more quickly. Is there a risk that things shift back into the admitted market if that cycle slows or goes the other way?

President and CEO at Trisura Specialty Insurance Company

Yes. Well, here's the very interesting thing. These traditional more legacy-oriented admitted carriers, they move very slow. So these MGAs/MGUs are able to come in, take a lot of this premium and then basically move it over, whether through one of those traditional E&S companies or through companies like Iron, which are, now we've got a predominance of all these fronting carriers out there.

I mean, we've gone from three or four to like 20 something. And they're basically throwing up paper and giving these MGAs the ability through the reinsurance market to continue to move business over to the E&S space and continue to charge much higher rates than we're being seen on the admitted side.

Now there always is the possibility that as these DOIs wake up out of their slumber and start to approve more rate filings, the admitted market will start to encroach again back on the E&S space. But what's nice about the MGA/MGU area is these guys move pretty fast. So they could easily just come back to a company like mine and say, okay, we've had you for the E&S side on this product.

Now we want to file you on the admitted side with the same product and here's the rates we think we can get approved. So having both admitted and non-admitted allows you to play offense and defense and working through a lot of these MGAs/MGUs allows you to kind of get the distribution out there and your product out there more quickly than a lot of just the traditional insurers.

Tegus Client

I guess this is a bit more on the wholesale side, although I think they all have sort of varying degrees of MGAs underwriting, et cetera, but the big three Ryan, CRC and AmWINS. How do you think about the difference between those two, reputation in the market, strengths and weaknesses, that sort of thing. Is there anything that really comes to mind when you think about those guys?

President and CEO at Trisura Specialty Insurance Company

Yes. Most people would tell you they're the three best when we do business, well, we've done, we do business with all three just in different areas. And some of our MGAs, for instance or MGUs and they also do business with all three. So for instance, we have a habitational program in the Northeast and while we don't do it through Ryan Specialty, they're our biggest broker for that book of business and for that program.

And if you talk to them, they would literally say, this MGA/MGU, while RLI and Markel and Berkeley and all the other ones that they have appointments with can do the same business because of our technology, because how quick we are, because of the reputations of the underwriters, we kind of get the first cut of the business, which sounds crazy, but that's how you kind of outcompete some of the big boys in our industry is by customer service, acumen, reputation and having the right people.

So that's, or the right niche for the business. So that's really help there. Ryan Specialty Group probably is the most MGAs of the three that they own. AmWINS has like an MGA operation, which is mostly workers' comp and some other stuff built into it. But Ryan Specialty Group is the most diversified. CRC has taken a different approach and they've kind of gone out the Truist and they bought larger MGA operations. So right now, they own AmRisc and they own StarWind, which are combined probably close to $1 billion or more in premium.

I think Ryan Specialty is over $1 billion, and I know AmWINS is just under $1 billion. So these are pretty big entities and Gallagher owns RPS, which is, I think, a couple of billion on their MGA/MGU side. So what usually happens is for better or worse, when these wholesalers are out running around, if they can't find a traditional market to place their business in, then they like having these MGA operations under their umbrella because they'll push that business to that side of the house. So they actually get more bites of the other commission apple throughout the chain, so they can keep it all in house. So that's really where that growth has really kind of been orchestrated by these guys is to really kind of keep more money into their own system.

Tegus Client

So the MGAs/MGUs kind of dumb industry-level question are typically working with a wholesaler who is then working with a retail broker or do they work with retail brokers directly as well?

President and CEO at Trisura Specialty Insurance Company

Yes, it's all over the place. When we talk about MGUs, that's usually the E&S market, so they're usually dealing with wholesalers on the MGU side. On the MGA side, traditionally, they would deal with retailers. Now it's possible to confuse even further that an MGA could have and several do have E&S wholesale surplus lines licenses. So they act as that wholesaler and they deal with the retailer. On the MGU side, they're mostly dealing purely with wholesalers.

Tegus Client

Got it. And then if I think about like why Marsh, Aon, Willis don't have much, I think Marsh maybe has a little bit, but don't have much wholesale. It goes back from what I understand like the mid-2000s and Eliot Spitzer and a bunch of crackdown and forced divestitures. Is there a possibility that they could get back into this business more? Or is there something permanent why they can't? Because my understanding was sort of a conflict of interest issue, but it seems like you could arguably maybe see some here with people who are owning MGUs and wholesalers.

President and CEO at Trisura Specialty Insurance Company

I mean if you look at Gallagher, Gallagher owns a big wholesaler and they're a big retailer. So they've got both sides still. But U never thought about that. You're right, Aon, Marsh, Willis, yes, they've gotten rid of their wholesale operations. Now a few of those do own MGAs though. But again, they're probably more on the admitted side, not the E&S side. But yes, you're right. I think Gallagher, they're one that owns a wholesale operation and Ryan Specialty Group is purely wholesale and MGA/MGU.

Tegus Client

Got it. Is there a shift, do they like having more MGAs/MGUs out there? Is there a tailwind to that market beyond just shift to E&S. It seems like that's become a more popular area for M&A for a lot of these players.

President and CEO at Trisura Specialty Insurance Company

Yes. From a traditional insurance company standpoint, they like MGAs if they fulfill some kind of a niche or a need that they don't have on what we would call the transactional side of their operation. So for instance, Zurich got out of commercial auto few years ago, yet they had an MGA that was still writing MGA business on their behalf. But from a transactional standpoint, they just basically cleaned house.

Lexington, AIG, they have some of those as well, where if they fill particular needs, they will appoint these MGAs and then some don't even care. They all appoint MGAs that just compete with their transactional underwriters internally and that drives everybody nuts, which is part of the reason why these front-end companies got very popular. These MGAs were really tired of competing with the same guys with the same paper.

They were trying to find new avenues of capacity where they could compete without having to literally be selected against internally. So some of the dysfunction created a bigger market for these MGAs/MGUs and that was part of the problem. And some of these big companies like AIG started to sell off or they own some MGA operations. And recently, they started to sell them off.

Tegus Client

Interesting. Are those how wide, like some of the MGAs that have been described to me seem very high quality like they tend to dominate some and maybe there's a bit of a network effect there not so much. Is that fair? Like is there a really wide range out there in quality of these operations? Or is it just generally a good business?

President and CEO at Trisura Specialty Insurance Company

No. For a long time, an MGA was a four-letter word. And what's happened in the last 10 to 15 years as a lot of this professional capital, as I call it, has gone in, whether it's vehicles, capital vehicles behind insurance carriers, private equity groups, public markets, whoever, a lot of these MGAs have proven that if they can get a diversified portfolio and the right carriers on their balance sheet, they can really build distribution and build product and it's really a moneymaker.

So if you look at Arrowhead or the Brown & Brown group, if you look at dual K2 some of these are multibillion-dollar MGA/MGU operations with multiple books of business and oftentimes, leaders in segments, like, for instance, Arrowhead has a difference in condition/earthquake portfolio, they were like $700 million.

It's more than just about any insurance carrier in that space. So they've got 15 or 20 carriers, they're appointed to manage that book of earthquake business or say, ICW who is another market leader in that space, they might write a couple of hundred million there. So it's exactly what you just said, some of these MGAs that are bigger, better have more professional capital behind them. They are, they have the best technology. They move quick. They've got multiple carriers they're appointed with and they'd certainly control certain niches in certain areas of the market.

Tegus Client

Got it. Is there a major difference in, or I guess how does the commission structure there work? And given the range and quality there, is there a wide range in commission structure where I guess I think of kind of wholesale brokerage is more consistent across the board?

President and CEO at Trisura Specialty Insurance Company

Yes. I'd say the MGA/MGU world is definitely a broader range. You've got them anywhere from the low to mid-30s depending on their product to commissions in the high to mid-teens. If it's a tough area like commercial auto, the margins are pretty thin on commission or workers' comps pretty thin.

And if it's a niche like Surety or something that's got a pretty high margin to it, you'll have commissions can go into the mid- to high 30s, even low 40s. So it really depends on your product and the niche that these guys play in. And a lot of the bigger ones, they'll have several different niches that they play in, and that's how they can balance out their ceding commissions. Some of them are going to get lower, some of them higher. But when they roll it all up, the number looks pretty strong.

Tegus Client

I wouldn't have expected it to go that high. How does any degree of alignment work? Is there some amount of risk retention or sharing that goes on? Or is it more just like reputational and carriers will leave if you don't price appropriately.

President and CEO at Trisura Specialty Insurance Company

Yes, it's a little bit of both. So some of the private equity groups and so the reason they go that route is they're a little bit, they're balance sheet adverse. They really don't want their MGAs/MGUs, setting up captives, taking risk and so forth, then there's others that don't mind that, who they actually believe if it's a well-performing book of business, they should set up a captive or have a pretty decent sliding scale commission to where they can actually make some additional upside over than just the traditional commission.

I do prefer some kind of a flat seed with a profit commission that goes up to incentivize these guys to write better business. And we also do like people if they can set up a captive alongside us and the reinsurers and take a risk position that also gives people some comfort that they're minding the store a little bit better.

So, and then there's others that are just flat. So it really just kind of depends on the, again, on the business, the business mix, how long these guys have been in business, how good their portfolio is and so forth. But yes, most of the reinsurers and the carriers do want, if possible, the MGAs to participate in some kind of upwards or downwards slide more in a captive position.

Tegus Client

And are there are there like horror stories in the space? Or I'm sure some certainly better than others, but like where MGA, they really fall apart after doing a bad job or any asset is too easy to reprice and kind of reset after a bad year?

President and CEO at Trisura Specialty Insurance Company

Yes. There are lots of horror stories, and there are some of these people that if they just have one book of business and they're not owned by any professional capital provider or a big or any other entity. If they go into runoff, they're basically out of business and they're kind of handing the keys to the store, and they're saying good luck. So managing and mitigating the downside risk is very important to be able to play successfully in the MGA/MGU space.

So some of the smarter companies, they won't deal with people or with groups unless they have multiple books of business. And they know if something goes wrong with one of their portfolios, they're able to manage the runoff of that and move forward. And that does happen more frequently in a soft market and not so much in a hard market.

So I think some of these new companies that have come into the space have been fortunate that they've come in through a hard market. But yes, you'll see when the market starts to soften, there will be plenty of these portfolios that go upside down and there'll be some pain from some of these carriers to have to run these books of business off.

Tegus Client

Got it. And then maybe stepping back a bit towards the wholesale brokerage broadly and there's consolidation there, there's consolidation it's been going on forever, but on the retail broker side, do you see any change in the balance of power or commission structure between retail wholesale carriers. Yes, I guess I'll just start with that.

President and CEO at Trisura Specialty Insurance Company

Yes. I think you're going to start to see further consolidation right now. I think it's going to be a couple of more years. I mean there's going to be the little, what usually happens is the bigger guys start to consolidate. A lot of people get upset. They don't want to work for Marsh per se, and they were with JLT or BMS before and then he get bought.

And then they go and they start up a new operation, which now you've probably seen quite a few got started in the last few years because of these large consolidations. And then what happens is these smaller guys build up a pretty decent portfolio, pretty good sized book over about a five- to seven-year period. And then the Marshs, the Aons, the Willis's they don't know how to grow, Gallagher any further organically. So they go and they buy one of these.

And then it all kind of starts all over them. So in the last few years, you've got all of these large brokers buying up pretty decent-sized ones and they've had a lot of people out there running around trying to recreate it all over again. And it takes a while, but it's highly possible that in the next three to five years, you'll see more M&A again on that side of the fence.

Tegus Client

Got it.

President and CEO at Trisura Specialty Insurance Company

And probably on the wholesale side too, there's been a few that have broken off recently in the last couple of years that are building pretty strong operations and I'm sure we'll get staffed up here.

Tegus Client

I mean for the big guys, they get they're a tailwind of like panel consolidation where keys roll-up retail brokers want to drive more efficiently and work with fewer wholesale brokers. And yes, how big of a trend is that?

President and CEO at Trisura Specialty Insurance Company

Yes, I think it's pretty big. I mean I would say, what, 10 years ago, there was probably 10 or 12 pretty decent-sized wholesale operations and now you're down to probably four. And again, people will spin out of that and start to do more. But yes, I think you're right to the point now where you've got those, really the big three plus, I think, the RPS group over at Gallagher, which doesn't, they usually don't get mentioned as much with CRC and AmWINS and Ryan Specialty, but they're also pretty significant.

And I think you've got others out there that are starting to grow, starting to branch out. And I think they'll be open for digestion to say here in the next couple of years. It's just they need to get some more critical mass to make it interesting or to make it worthwhile for some of these bigger guys to go after.

And that usually takes some time. I mean on the MGA side, that's really where you've seen the more movement here lately, some of these bigger MGAs that have hit between $500 million and $1 billion plus, they're getting scooped up right and left, either by other private equity groups or groups like CRC or like Truist.

And I know Ryan Specialty Group has been buying MGAs as well. I think they've got 18 now in their portfolio from maybe four, five years ago. So there's a lot of M&A activity out there, but I think it's more in the last year or so, I think it's been more on either the Acrisure buying up smaller retails and rolling them into their portfolio for all these guys buying up reinsurers, I mean MGAs and MGUs.

A matter of fact, Acrisure, they've been fairly aggressive on all sides, and they're starting a wholesale operation now as well. So that's going to be another one kind of like Gallagher, where they're going to have retail, wholesale, MGA. There'll be a fully integrated big broker.

Tegus Client

And on the M&A side, something someone brought up to me recently, there's this like FCC proposal to try and ban or restrict non-competes, which I would imagine, are pretty important to this roll-up strategy given, like you say, people spin out. And, is that like something people talk about? Is it a real threat here? I'm sure the intent in theory isn't to protect people who sold their insurance brokerage for $20 million, but in practice, could it become an issue?

President and CEO at Trisura Specialty Insurance Company

I think so. I mean there's two sides of that right where usually when they get bought some of these guys, they have to sign usually a three-year non-compete that they can't go out and recreate what they have. I know there's been some and others are trying to throw out non-competes, but I'm not sure how that's going to play out, whether that's just going to be, now if you get bought and somebody pays you $20 million and you have to sign something that says you're not going to go tomorrow and recreate that.

I think that's different than if somebody basically a normal non-compete, where if you're just going from broker to broker, you should be able to take your portfolio with you and not get sued.

And that's where you've seen a lot of these lawsuits lately as somebody will try to take a team from Marsh over to Aon and then the lawsuits are all over the place. So I think those are probably a little bit, those are the ones I think that are going to be a little bit more challenged going forward in terms of enforcing those. But I do believe that if somebody buys your MGA and pays you a whole bunch of money that those non-competes probably will still hold up?

Tegus Client

I would imagine you could structure the cash payout as well.

President and CEO at Trisura Specialty Insurance Company

Work overtime exactly. Not to the most.

Tegus Client

Got it. And then you mentioned that maybe on the traditional wholesale brokerage, there's been less major

M&A and shifted a bit more towards the MGA/MGU side. Do you think that's like a thing that here to say, are the big guys just too big to be allowed to do significant more deals? Or is this just like a digestion period?

President and CEO at Trisura Specialty Insurance Company

You think if you're Marsh or Aon or Willis you've got a big splash to make your stock move or to get people excited. Acrisure, Gallagher, they continue to roll up those little guys. I think they're constantly buying small retail operations and MGAs and others. But yes, you don't really hear so much from Aon or Marsh or Willis unless it's something fairly significant that they're out there buying.

Now some of them will go after consulting companies now or what do you call it other areas that may be accretive to their overall operation like on the benefit side, stuff like that. But most of them now have already kind of gone through that and they kind of all have those now, whether it's consulting operations, as well as benefits operations and all that, they're kind of fully integrated these big guys.

Tegus Client

Yes. It seems like Aon's strategy is like very different and want to get into like selling data and stuff unless close to Marsh, this is probably like an unanswerable more macro-driven question to some degree. But if you think about it's been a robust price environment that has helped the growth numbers of the Ryan's of the world. How do you think about where we are? Are people still like years to go on pricing or much, much further along in that cycle?

President and CEO at Trisura Specialty Insurance Company

Yes. We're further along in the cycle. You're not seeing tremendous price decreases right now, fortunately, but you're not seeing the big increases either unless it's property cat-exposed or some kind of habitational property, you're pretty much getting to a point where most of the lines of business are in that 5% to 10% rate increase.

I mean even cyber, which two years ago was getting 50% to 100% rate increases, that's starting to flatten out. And there were years where nobody made any money in the cyber space, and it needed huge rate increases. But now a lot of competitions come in. People have made money in the last year or so, and you're starting to see that flatten.

But other than property cat-exposed business right now and what I'd call habitational is because there have been so many what we call COVID losses, you've seen this as well. Homeless people walking around these apartment buildings, they like fires for the first time in forever, fires have been the loss leader in the habitational space and that has been the case for a long time.

But people just stay, they're working from home, they leave the Evidon, then they go out to the store, forget they left the Evidon, something happens and the apartment building birds out. So we've just seen a huge amount of those types of incidents in the last two or three years, which has driven the property market even on the non-cat side to get huge price increases.

But really, commercial auto is already starting to soften, which is crazy because it needs to stay a lot higher than where the admitted market still wants it to go. But yes, we're starting to see pretty much price stabilization, probably the right word across most lines of business.

Tegus Client

And do you think there's like in some of these cycles, things tend to overshoot obviously and that drives the software environment. Does that happen every time in this market? Or is there sometimes like the rates peter out and it's just kind of more like a mixed bag?

President and CEO at Trisura Specialty Insurance Company

No, we tend to underprice and overprice in this industry and it drives most people nuts. So I believe some pockets were underpriced for years. And I'd say commercial is a great example. So from 2010 to 2015, the average power unit price for truck was about 5,500 to 6,500 say, sometimes even a little less than that depending on where you're at.

Then in 2018, 2019, 2020, those prices went from about 5,500 to 10,000 to 11,000 power unit. Some if you're depending where you're at, some as high as 12% or 15%, but that's just for standard. That's not even for the highly distressed guys. The distressed accounts were going for 25,000 to 30,000 of power unit, which was so excessive that most of these truck drivers could barely even afford to operate their company and pay for their insurance costs.

So what's happened now. Now we're seeing everything starting to go back down to 10,000 or below. People have finally gotten their admitted filings pushed through. So on the E&S side, maybe you get 10,500 for that same risk. Now the admitted guys are coming in at 8,000. So you're already starting to see after just a few years things going back to where they were between 2010 and 2015.

And I guarantee most of these trucks at 6,500 to 8,000 a power unit unless they're super preferred accounts, you're not going to make money. And especially with not just social inflation, but just regular inflation and some of the other stuff. So yes, once again, the industry in general, overshot, overpriced because it needed to, because loss house multiple players and everything are just getting crushed and were high enough.

And now we're going to probably compensate over the next couple of years in certain lines of business because more competition is coming in and so forth and rates are being finally approved by the departments of insurance. So yes, I think in certain lines, you're going to see that D&O and E&O was another one that prices are up 30% to 50% from like 2018 to 2022. And I've heard already, you're starting to see prices coming down 10% to 15% in those spaces.

Tegus Client

I know like this gets asked about so many times in so many ways and has never really mattered in this market, but more direct distribution, digital.

I know Ryan has like a digital platform. It's hard to see it in anyone's numbers that it's mattered. I'm curious like maybe a different way of approaching it. Like are there pockets of this market where it's, that could create some winners and losers here. I understand why this is not like admitted this isn't like GEICO, just goes direct, like it's way more complicated than that. But are there areas where you think that could be relevant?

President and CEO at Trisura Specialty Insurance Company

Yes. I think you're talking about InsurTech in general. And I think, yes, there are, the ones that have been the winners on the InsurTech side have been the ones that have been able to figure out how to utilize technology along with some pretty strong underwriting acumen and insurance credibility. Where these things have gone wrong is early on, it was just a bunch of people coming in and saying, "Hey, the insurance industry is a very inefficient insurance or a very inefficient business makes no sense.

So like you just said, GEICO, cut out the broker and cut out the middleman, save 15%, we can reduce prices, so forth. While that was a lot of fiction. I mean if you look at Hippo and Root, all these companies Lemonade, I mean these companies are never going to make an underwriting profit. It's just silly. And they've been completely ascended in their approach to business and their shareholders are getting killed.

Now there's a couple of people like At-Bay, others on the cyber side that took some underwriting acumen from people that were actually working on the cyber like at AIG or others that were kind of going into that early on, brought those people into a more technologically integrated risk management platform and they were able to integrate both of those. So those guys have great technology and they've got great underwriting expertise and great risk management and you look at their numbers and they're extremely profitable.

And what's going on, though, is cyber, they're starting to get a lot more competition. And I guarantee a lot of those guys that weren't making money for a long time, getting 50% rate increases are starting to make money, but more competitors are coming in and driving that down. And that's the pure InsurTech people that just really believe that it's just a price, that you can make money if you just have a decent price and technology.

Well, I can tell you, it's a lot more sophisticated than that, and that's where I think a lot of these guys are losing. And the ones that are being successful have figured out how to integrate that great technology with some really good underwriting acumen and some risk management strategies. And all three of those combined, I think, gets you to where you need to get. But yes, I think in the InsurTech space, I've seen many more failures than we've seen successful winners.

Tegus Client

I guess I asked less about like the lemonade of the world. I can see their numbers, it's nasty, but more like Ryan trying to say, have a more of a self-service platform and potentially cut out some of their people costs where retail brokers just can buy like the low end more standardized stuff directly. Like is that a real opportunity here? Or are there regulatory or other reasons why, it's not. I guess they call it like the connector or something.

President and CEO at Trisura Specialty Insurance Company

Yes. There are people that have been trying to sell more online or even quick through an agent where the agent really doesn't do anything. The customer really fills out all the boxes and then the agent gets a small commission just for kind of being the middle person. But that's usually for BOPs and more, not very sophisticated types of products. For most commercial business, most people, they're not comfortable buying insurance on their own unless they have been doing it on their own or they have an insurance background.

Most of them want an agent involved in the process just to a certain extent. Obviously, a lot of commercial to more sophisticated than others. But a lot of people have been trying to in your words, digitize the small business owner policy space and try to make that more like what you can do online with progress over GEICO and so forth to just adapt that to a business side.

I think Berkshire came out with a product and I think Hartford did a couple of years ago in travelers, but I'm not sure how successful those have been and those, they've tried to do more of a direct-to-consumer for the small business owner. I don't know how much traction even those guys have gotten in that space.

Tegus Client

I guess the carriers could do it as well, theoretically upset the brokers that channel?

President and CEO at Trisura Specialty Insurance Company

And usually, they don't want to do that, but lot of times, the brokers don't want to waste their time on some of that small stuff. So it's probably not as contentious. But we've got a couple of deals we deal with, where they're fairly sophisticated MGA/MGU. They try to drop this model right in the agent's office.

So there's, or the agent just kind of does a pass-through, I think openly and a few others on, even on the homeowner side have tried to do that, where they're paying some kind of a commission. But really, it's their model in the agent's office. So if the customer comes in, they're basically in the carrier system.

Tegus Client

Are there any major markets admitted that you think will have a large shift to E&S in the next decade?

President and CEO at Trisura Specialty Insurance Company

Well, in the next decade, that's going to be interesting. I think most of the ones that didn't have an E&S side bought somebody like, say, a few years ago, Hartford bought Navigators. Chubb always had Chubb custom and then when ACE came on. I think the only major one out there that does not have an E&S capability is maybe Travelers. And I'm surprised they haven't made a move towards that space yet.

Travelers has probably been one of the more consistent. It seems like they're never super profitable, but they never lose a whole lot of money over there either. They're just one of those kinds of big, huge companies that just kind of bounces along and does what they do.

You've probably seen AIGs change quite a bit. I mean they used to be a lot more reliant, I think, on Lexington and some of the E&S that they have recently, but Navigators, that was a big boost to them. But yes, outside of travelers, I'm not sure anybody else out there that probably doesn't have some kind of a division that probably has some kind of E&S capabilities.

Tegus Client

Got it. And then if I think about it by vertical and some of the things you've spoken to like commercial properties seem to have shifted significantly towards E&S over the last 10 years. I don't know, even Florida, California homeowners markets that may shift further out of admitted markets towards E&S like because of whatever wildfires flooding that sort of thing? Or is that just like now that just comes and goes?

President and CEO at Trisura Specialty Insurance Company

No. I think that's a good point. There are some. I know there's been a few in California. The problem in California is even if you, the commissioners slot out said, whether you write the business admitted or E&S, they're not going to let you non-renew business in the homeowner space. So that makes it a little bit more challenging because the whole idea of being on the E&S side is you don't want to be regulated and you want to be able to get it in and out quickly if things start to deteriorate.

Florida just passed a whole bunch of different amendments laws and bills that are going to be very favorable to the insurance companies and the reinsurers. And that's going to be very interesting. So I think they're going to get the admitted side figured out. Now you may have more people coming into that space on the non-admitted side that want to do more coastal business?

Because the market so hard down there right now that some of them are seeing opportunities. And they know there's no way the Department of Insurance is going to allow them to put through a 50% rate increase within two to five miles of the coast.

So that, you're probably right, you'll probably see some of that. We actually do an E&S product in Texas for homeowners. Although that looks in as just like an admitted product, except the reporting period is shorter. And for that, you get a smaller deductible. So there's some people that are trying to be creative like we are and how you can kind of work around the admitted market with non-admitted paper and still give the policyholder homeowner a decent product. So I think that's probably the only good thing about insurance is that there's while it's a necessary evil, there is some more creativity coming into the market that I think will help the consumer over time as long as the regulators don't get too crazy.

Tegus Client

I haven't touched on in terms of like the industry dynamics or trends or even Ryan specifically that you think is worth understanding or bringing up?

President and CEO at Trisura Specialty Insurance Company

No. I mean Ryan Specialty, I think they are amongst the most dynamic out there. It impresses me that at his age is still working literally with him six months ago at a conference, he was a keynote speaker and now 84 years old, he still got a lot of energy, and he's still doing stuff.

I think you've built a pretty strong team around him. And we do a lot with them and they continue to impress on all areas. I would say them in AmWINS and the Truist Group, we do the most with. And yes, all three of them have been strong in their spaces and they continue to grow. But I think Ryan Specialty Group is probably a little bit more diversified.

I think that's, I'm not sure that's the right word, but I can tell you that some of the wholesale brokers and some of the ones that we deal with have some of the best reputations in the industry. And, but just like any company, they've got so many brokers, they can all be good, but a few of the ones that are really good apparently are really good at what they do. And they got a lot of capital they're going to keep doing what they're doing and keep growing.

Tegus Client

Well, this is super helpful. I really appreciate the time. Have a good weekend.