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‘We have a tailwind of growth behind us’

Aleksey Funtap/Alamy Stock Photo

CFC chief executive, Dave Walsh, discusses the London market MGA's new Lloyd's syndicate, the challenges of writing cyber risk and its $2bn premium target

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Specialist managing general agent (MGA) CFC Underwriting remains fixed on its goal of writing $2bn in annual premium income by 2025, despite the pressures Covid is placing on the insurance market.

The London-based cyber and emerging risk MGA, which is set to write around $700m in premiums in 2021, has been growing at around 30% a year for at least the past five years, with no noticeable drop-off during the pandemic.

Indeed, the company launched its own Lloyd's insurer, CFC syndicate 1988, in April this year to ensure access to a sufficient supply of risk capital to support its growth ambitions.

Syndicate 1988, which began trading last month, writes a cross-section of CFC's established portfolio of specialty, emerging and digital economy risks. The syndicate is expected to generate around £100m ($138.7m) in gross premium income in 2021. CFC itself is providing some of the risk capital supporting the syndicate, enabling the MGA to take risk on the same terms as its capacity providers.

Technology-driven

Dave Walsh, the firm's founder and chief executive, says there are very few underwriting businesses in the London market that are better positioned than CFC, which is 21 years old this year, to grow in today's market environment.

CFC was able to maintain its growth during Covid because it has always been a technology-driven business, Walsh argues. “We feel like a very, very modern business. Our systems are completely cloud native. When Covid hit, we were ready for everyone to work from home,” he says.

CFC is the biggest independent MGA (not owned by a broker or an insurer) outside the US, according to Walsh.

In addition, the risks written by CFC, such as technology, cyber, intellectual property in sectors such as new media, life sciences, digital health and wellbeing, are the risks faced by the businesses of the future, Walsh says. “Those businesses and the demand for insurance solutions to those risks have been pretty pandemic-proof. In fact, there are many areas within our business that have actually benefitted from the pandemic,” he continues.

Relatively early on, it was clear the pandemic was not going to make a difference to CFC's premium income or revenue flows. “We literally had two business lines out of 24 that were impacted by Covid in revenue terms. Of course, the other 22 business lines easily compensated for that,” Walsh says.

One of the lines affected was transaction liability, a significant line of business for CFC. “But to be honest, that line was impacted for about six months, from April last year until October/November. Then, of course, there was this pent

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up demand for merger and acquisition activity and we were back. Requests for cover were coming in at record levels," he says.

Contingency was the other business line affected by Covid, although CFC's involvement is limited, according to Walsh. "It has not been disastrous for us. Many companies have exited contingency lines. But we are staying in."

Pioneer

Syndicate 1988 has been set up as a full syndicate, not as a follow syndicate. This leaves open the possibility it could in the future operate as a standalone underwriting entity in the Lloyd's market and not just as a capacity provider to CFC. But, for now, the syndicate will operate as a vehicle to transform investment capital into regulated insurance capital and provide capacity to CFC.

Walsh says the underwriting capital available to MGAs in the London market is by its nature finite. This is, in part, because capacity providers are ultimately free to decide for themselves how best to deploy that capacity, particularly in a market that is hardening and, increasingly, risk averse.

But Walsh is only too aware things did not go that well for Pioneer, one of the most successful MGAs in the London market until, in 2018, it acquired its own syndicate. Less than two years later, Pioneer was forced to put the syndicate into run-off, blaming the high cost of capital in the Lloyd's market, among other factors. Pioneer itself was soon afterwards put up for sale.

But CFC is a very different business from Pioneer and, in terms of their respective lines of business, there is no real comparison, Walsh says. CFC syndicate 1988 has got one job and one job only: to back the unique set of risks written by CFC. "There is nothing like it in London market – 95% of the risks we write do not come to London," he says.

CFC's portfolio, which consists largely of cyber and other emerging small to medium-sized enterprise (SME) and micro-enterprise risks, is written through the specialist products developed by the company. CFC competes for that business against local insurance carriers and MGAs. The business, Walsh says, is very difficult for London market carriers to access because it is scattered, not very homogeneously, in corners of markets around the world. "This business is not looking for Lloyd's syndicates, which is why our carriers like backing us. Our platform allows us to handle 24 business lines in 90 countries from London, ultra-efficiently and ultra-cost-effectively," he says.

This business comes directly from local brokers to CFC from all around the world. "Our distribution network of more than 2,800 broker offices is unique in the London market. Combining that with Lloyd's network of global insurance licences puts us in a position where we able to provide very good value to capital providers, effectively transforming that capital into a new asset class," Walsh says.

"This is not typical Lloyd's syndicate business. It can't be compared to the business written by Pioneer and neither can it be compared to the business written by other carriers in the London market," Walsh says.

The challenge for CFC is to ensure it writes good business on behalf of the syndicate, as it has done on behalf of its other capacity providers for much of the past two decades.

It is about identifying the right areas and being thoughtful about how CFC expands its business by making sure the company grows in profitable areas, Walsh says. "The good news is our loss ratios in recent years are absolutely in the top quartile for Lloyd's. Across our portfolio and particularly in our major lines, our loss ratios are materially better than market. And we are incentivised to maintain that performance with syndicate 1988 so Lloyd's will allow us to grow that business to support our future growth."

CFC, he says, is lucky to be focusing on fast-growing industry sectors and classes of business. "We have a tailwind of growth behind us. And we are also growing through rates," he says.

The company's aim is to increase its market share in these fast-growing areas. "We have the knowledge, the experience and the scale of the big insurers to enable us to generate the necessary level of data but we also have the hunger, the technological capability and the agility of an insurtech."

Ultimately, Walsh says, profitable growth will be down to CFC's ability to select the right markets and the right risks, which sometimes requires a counter-cyclical approach.

But, as its decision to stay in the contingency market demonstrates, CFC does not exit classes just because that is what everyone else is doing. "But we're constantly studying the data and working out whether we should be going two degrees left or two degrees right," Walsh says.

"For us, it is about which part of a class is more attractive than other parts. It is about whether we should write more business in one area or just increase rate for the business we are already writing. It's a data-driven exercise to select the risks and the markets that work for us." ■

'Cyber loss ratios have skyrocketed'

Rates in most of CFC's business lines are hardening right now. But none more so than cyber, where prices are increasing at an unprecedented rate. "We're seeing rate rises of the order of 30% to 40% right now, primarily driven by the increase in the frequency and severity of ransomware attacks," Walsh says.

CFC claims to be the biggest writer of cyber risks in the UK, Canada and Australia and one of the top three to five providers of cyber insurance cover to SMEs in the US. Last year, it opened an office in New York to write cyber risks in the US admitted market, mobilising its cyber insurance platform, which offers brokers the ability to generate a comprehensive cyber quote with just a single piece of data.

Cyber accounts for slightly less than 40% of CFC's overall business. In April this year CFC further boosted its crisis management capabilities by acquiring Insane Technologies, an Australian cyber claims management and cyber security and incident response provider. This follows the acquisition of Texas-based incident response provider Solis Security in October 2019 and the UK-based cyber security data analytics company, ThreatInformer, shortly thereafter.

According to Walsh, CFC has been much less affected by an increase in the frequency of ransomware attacks than it has been by the increase in the severity of these attacks. In particular, the complexity of dealing with these attacks has increased significantly, as have the size of the ransom demands themselves. "Cyber criminals have become a lot bolder over the past year or two," he says.

As a result, the loss ratios in the cyber market skyrocketed across the market to the sort of levels more typically associated with mature businesses lines. "But it is not disastrous. We don't think there are lots of insurers out there with net loss ratios way north of 100%. But it is a big shift, and there is concern about the direction in which the cyber market is heading," Walsh says.

One factor currently benefiting the market is that cyber, for the most part, is an incredibly short-term class of business, according to Walsh. "With other classes of business such as professional indemnity and directors' and officers' written in the London market, by the time the loss ratios manifest themselves, insurers will have been exposed to a few years of bad results before they can fix. Losses in the cyber market are shorter-tailed even than losses in the property market. The loss is reported and it is a matter of hours or days for the carrier to settle the claim and move on," Walsh says.

While it might feel there has been a real surge of carriers and MGAs entering the cyber market over the past few years, there are still relatively few players in the sector. "You don't have the problem, as is often the case in more established lines, of new companies coming in cheaper than the market, making it hard to raise rates. The great thing about the market right now is everyone is feeling the pain, everyone is putting prices up, so rates are holding which is what the market needs at this time." ■