

Doing Business Well in a Harder Market

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EXCESS AND SURPLUS LINES BASICS – WHAT IS THIS MARKET? WHY DOES IT EXIST?

Excess and Surplus (E&S) lines is a class of insurance designed for unique, intricate, and challenging insurance risks. In essence, the E&S market extends beyond the boundaries of the admitted market, offering coverage capacities that surpass conventional limits. Some examples are risks such as earthquake perils, oil field operations, environmental clean-ups and medical trials. It can even step into the exotic, covering nuances like an actor's voice, a model's face, an athlete's injury and precious artwork.

A distinctive trait of surplus lines, or "non admitted" insurers is they are not licensed in every state in which they are transacting business. However, they are either licensed in one state and/or are on the NAIC insurance commissioners approved list. Licensed surplus lines brokers are responsible for transacting business with these surplus lines companies.

The freedom offered by the surplus lines market is a pivotal advantage. Unlike admitted carriers, surplus line insurers aren't bound by the necessity to file rates and forms with states, providing unparalleled flexibility in tailoring coverages for hard-to-insure risks.

WHAT DOES THE E&S MARKET LOOK LIKE?

The U.S. surplus lines market witnessed considerable growth in 2022, experiencing a 19.2% direct premium increase – the highest since 2003. While we don't have the numbers for 2023 yet, the close of 2022 revealed direct premiums written in the surplus lines market totaled \$98.5 billion, constituting 11.2% of the overall \$875 billion written in the property & casualty market. The surplus lines insurers share of the commercial lines market was 21.6%. In this hard market, with standard carriers decreasing capacity and exiting lines of business, wholesalers are more important than ever!

Though surplus lines premium seems small compared to the total property & casualty market, it plays a pivotal role by providing coverage for hard-to-place risks, such as products recall, highly sophisticated coverage like reps and warranties insurance, new and untested coverage like active assailant, heavily manuscripted coverage in the realm of cyber, and even everyday coverage like high value homeowners.

HOW TO WORK WITH A BROKER OR WHOLESALER

For those navigating the complexities of this market, understanding how to work with a broker or wholesaler is key. When standard carriers are exhausted or decline a portion of a risk, turning to a broker or wholesaler can be intimidating, especially for those new to the insurance industry. However, this market should be seen as a supplement, not a substitute, to the standard market. The operations and outlook may have similarities, but they are different.

Ensure you know your wholesale brokers and cultivate your relationship with them. Know their underwriting guidelines, what each one specializes in and who their markets are. In this hard market, it is important to regularly use as few as possible as not to burn relationships with carriers. Call to discuss the risk. Additionally, give your broker as much lead time as possible. Let your broker know if you have an emergency and the reason for the urgency. And don't rely on "rush" or "urgent" 80% of the time.

UPCOMING EDUCATION

Though we've given you quite a bit of information in this article, there's much more to learn. Join our upcoming webinar, "Doing Business Well in a Harder Market," on Friday, February 9 at 11 a.m. EST where we'll delve deeper into the intricacies of navigating this dynamic market. Attending the webinar will give you an in-depth exploration and valuable knowledge to thrive in the evolving marketplace. Don't miss out on the opportunity to enhance your knowledge — register now by emailing Diane Smith at dsmith@arlingtonroe.com!