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Our Agenda

- ▶ **Section I** – Introduction: Excess and Surplus Lines Basics – What Is this Market? Why does it exist?
- ▶ **Section II** – Who is this Lloyd character and why is he in London?

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Our Agenda

- ▶ **Section III** – What Does the E&S Market look like?
- ▶ **Section IV** – How to Work with a broker or wholesaler

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Excess and Surplus Lines Basics – What Is this Market? Why does it exist?

»» Section One

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Excess and Surplus Lines Basics

Simpson, Van Buren and Stephan, *Surplus Lines Fundamentals* (2009)

“Excess & Surplus” is a class of insurance designed generally for large, unusual and difficult to place insurance risks.

E&S market frequently has coverage capacities above or beyond the admitted market.

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Excess and Surplus Lines Basics

- ▶ ...such as earthquake, oil field operations, environmental remediation/clean up and medical trials; and
- ▶ “Exotic” coverages such as an actor’s voice, a model’s face, an athlete’s injury and precious artwork.

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Surplus Lines Carrier Eligibility

Simpson, Van Buren and Stephan

- ▶ Surplus lines (“non-admitted”) insurers are not licensed (admitted) to transact insurance in a state (or states).
- ▶ Surplus line insurers can become eligible for use in a state by inclusion on an eligibility list for placements made by licensed Surplus Lines Brokers.
- ▶ Many states require non-admitted insurers to apply for inclusion on their eligibility list (also known generically as “white lists”).

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Surplus Lines Insurance

Simpson, Van Buren and Stephan

- ▶ A major advantage of the surplus lines market is the freedom to tailor coverages for difficult to cover risks.
- ▶ Surplus line insurers are not required to file rate and forms with the states as admitted carriers must and therefore are not confined to the use of their pre-filed coverages "in a box".

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Excess and Surplus Lines Basics

Simpson, Van Buren and Stephan

- ▶ Except for New Jersey, state insurance guaranty funds do not apply to surplus line insurers that become insolvent.
- ▶ As a practical matter, many state insurance guaranty funds are not available to all insureds (there are exceptions of course). Additionally, funds are generally limited in the amount of coverage available.
- ▶ *This is why many states require an MGA / SL brokers to assume financial responsibility*

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Excess and Surplus Lines Basics

Simpson, Van Buren and Stephan

- ▶ Surplus Lines Broker:
- ▶ The Surplus Lines Broker can go direct to a surplus lines insurer
- ▶ A Surplus Lines Broker may have to access a non-admitted market through a "Wholesaler" or "Managing General Agent" or "Managing General Underwriter".
- ▶ *Despite statutory enactments, the terms "Broker" "MGA" and "MGU" are used without much (if any) precision in the industry.*

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Excess and Surplus Lines Basics

Simpson, Van Buren and Stephan

- ▶ Wholesaler / MGA / MGU
- ▶ Wholesalers often "have the pen," meaning that they have been given underwriting and binding authority.
- ▶ MGAs typically have binding, underwriting AND claims authority. MGU is seemingly more of an L&H term; IRMI says, "The terms have been used interchangeably, and there is little real distinction."
- ▶ *Again, no real precision within the industry.*

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Excess and Surplus Lines Basics

THE BROKER MAY BE ACCESSING ADMITTED CARRIERS:

- ▶ An example is aviation insurance
- ▶ Typically, it is written on an "admitted" basis, not on a surplus lines basis.
- ▶ There is no "standard" industry form. (ISO and AAIS don't play in this field...)
- ▶ However, many retail agencies use a specialist broker to access the aviation insurance company marketplace

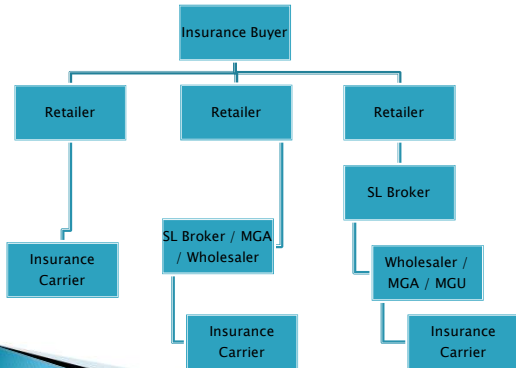
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The Distribution Channel (Simple)



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The Distribution Channel (Complex)



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An Example of the E&S Market Functioning Well

- "[C]annabis is classified as a Schedule I substance under the CSA of 1970...
- "Schedule I drugs are defined as '...substances that have a high potential for abuse, have no currently accepted medical use in treatment in the United States, and there is a lack of accepted safety for use of the drug or other substance under medical supervision."
- ***"Other Schedule I substances include heroin, peyote, and lysergic acid diethylamide (LSD)."***

Dr. Brenda Wells, *Legalizing Marijuana: Risk Management And Insurance Implications*, The Risk Report (Jan. 2018)

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An Example of the E&S Market Functioning Well

"For agents trying to open up a new sales channel, the marijuana industry represents a *yin-yang style of opposing forces*. [Pamela Adams, Chair and CEO of ISU Insurance Services of Colorado] says agents wanting to take on the marijuana insurance business have their work cut out for them."

"You're going to have to go to the specialty market," she says. "It's causing more work. It may take you a while to find the right E&S market that will provide that coverage. When you do, the premium is likely higher."

"With higher premiums come higher commissions, she points out. However, she adds, "Once you get to the excess and surplus lines carriers, they're paying less commission."

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Who is this Lloyd character and why is he in London?

» Section Two

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Lloyd's of London

- Late 1600s Edward Lloyd's Coffee House. Seafarers, merchants and insurers meet for insurance business and coffee.

Breda, *Insurance Law Research* (1/13/09)



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Lloyd's of London



1688 Edward Lloyd starts a shipping newspaper and reads out shipping news from a pulpit in his coffee house; attracts even more shipowners and insurers

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Today...and in the United States

Underwriters at Lloyd's had licenses in Illinois, Kentucky, and the US Virgin Islands (but gave them up in 2020) and are approved surplus lines insurers in all US states and territories. Lloyd's is also an accredited reinsurer in all 50 states.

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Today...and in the United States

- ▶ The Lloyds market generated the biggest premium increase in 2023.
- ▶ The 86 syndicates that wrote US surplus lines business in 2023 increased Lloyds' premium total by a substantial 28.8% — the result of several factors, including positive pricing momentum on the specialty commercial, moderate – to high hazard risks that are a specialty of Lloyd's syndicates.

AM Best, Market Segment
Report, 9/18/24

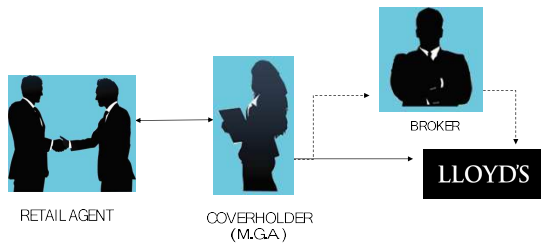
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Today...and in the United States

- ▶ Lloyd's is the largest surplus lines insurer in the US and the largest non-US domiciled reinsurer.
- ▶ All Lloyd's syndicates share market ratings of A (excellent) from A.M. Best, A+ (strong) from Standard & Poor's, AA- (VERY strong) from Fitch Ratings and AA- (stable) with Kroll Bond Rating Agency (KBRA).

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What is a Lloyd's coverholder ?



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What Does the E&S Market Look Like?

» Section Three

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Surplus Lines – the Necessary “Safety Valve” for P/C

- ▶ David Blades, Carrier Management, 6/4/24
- ▶ “Among lines of business that often have been eschewed by admitted carriers in recent years, subsequently finding their way to E&S carriers, are **coastal and higher-valued property risks**, commercial auto accounts, and public directors and officers liability.”

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The Size of the E&S Market

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (5/11/22)

1. The U.S. surplus lines market experienced direct premium growth of 15.7% in 2020, representing the largest year-over-year premium increase since 2003.
2. As of year-end 2020, surplus lines direct premiums written totaled **\$66 billion**, representing 9.1% of the \$726 billion in direct premiums written within the U.S. property & casualty market.

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The State of the E&S Market

▶ AM Best Market Segment Report, 9/18/24

- ▶ The surplus lines market generated \$115 billion in direct premiums written, up 16.8% over 2022, and surpassing \$100 billion.
- ▶ Surplus lines insurers reported another year of improved underwriting and operating results in calendar year 2023.
- ▶ **The growing need for non-admitted coverage solutions for catastrophe-exposed property risks** and challenging non-professional liability exposures led the surplus lines market to a sixth consecutive year of double-digit direct premium growth.

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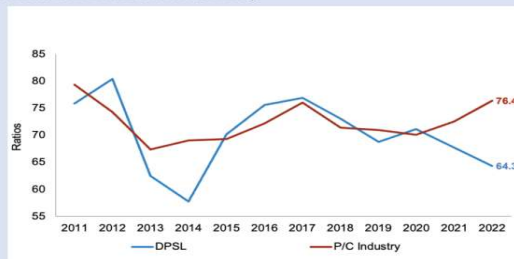
Why? AM Best:

- ▶ "Hard-market underwriting in admitted markets continues to drive business towards the surplus market, one of the primary reasons surplus lines insurers have enjoyed consistent growth in recent years.
- ▶ "Admitted carriers have become increasingly risk-averse, leading them to pull back on coverage, raise rates, push for higher deductibles, reduce overall limits offered for an individual risk, and tighten coverage terms.
- ▶ "The property market for both **personal lines property (homeowners)** and **commercial property remains hard, especially for accounts that have suffered large or multiple weather-related or man-made (wildfire) catastrophe losses.**"

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The Success of the SL Market

U.S. Domestic Professional Surplus Lines Composite
Net Loss and LAE Ratio vs. U.S. P/C Industry



Source: AM Best data and research

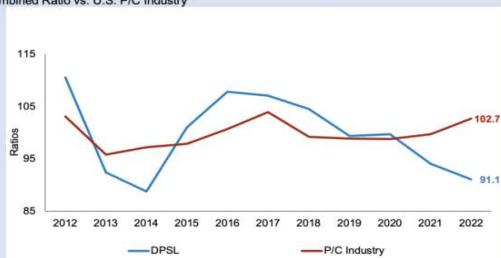
Note: Domestic professional companies are U.S.-domiciled insurers that write 50% or more of their total premium on a nonadmitted or surplus lines basis.

David Blades, Carrier Management,
6/4/24

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The Success of the SL Market

U.S. Domestic Professional Surplus Lines Composite
Combined Ratio vs. U.S. P/C Industry



Source: AM Best data and research

Note: Domestic professional companies are U.S.-domiciled insurers that write 50% or more of their total premium on a nonadmitted or surplus lines basis.

David Blades, Carrier Management,
6/4/24

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Five Coverages Likely to be in the E&S Market – and again, Where it Excels

1. **Tough-to-place Coverage:** Products Recall
2. **Highly Sophisticated Coverage:** Reps and Warranties Insurance
3. **New, and Untested, Coverage:** Active Assailant
4. **Heavily Manuscripted Coverage:** Cyber
5. **And an “everyday” coverage:** High Value Homeowners

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How to Work with a Wholesaler or Broker

»» Section Four

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Standard Carriers versus Broker



You have exhausted all Standard Carriers...
What do you do now?



Going to a Wholesale/Broker can be a scary prospect, especially if you are new to the Insurance industry or have not had experience in doing so.



You are probably comfortable with your Standard Carriers' underwriting guidelines and procedures and are questioning how to place business with a Broker.

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Example of a Risk Opportunity



The Risk Opportunity

Insured owns a business, home, property, etc. which needs Insurance coverage (the risk)
Reaches out to Independent Agent in the Community



Independent Agent reviews and submits

Independent Agent reviews the risk and does some upfront underwriting to see what the risk entails
Independent Agent submits risk to standard carrier/s



Carrier response
Risk submitted to broker

Standard carrier has issues with insuring all or a portion of the risk
Independent Agent brings risk to Broker to find the right solution

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Property Risk Examples:

1. An example of a risk a standard carrier might normally write for an agent, and then they decide not to, and the agents needs to bring to the E&S market.

An example would be a Lessors Risk Only policy. This is typically a strip mall with perhaps an anchor tenant that is leaving, causing occupancy issues. The building itself may be one that a standard carrier may write but, due to occupancy concerns, they may not consider. This is where the E&S market steps in.

2. An example of a chaotic risk which we were unable to write, or one that we were and how that went. Looking for coverage examples, perhaps splitting up a policy to get limits needed.

A more chaotic risk would be a larger builder's risk, specifically frame. Separating into 3 policies was the only way we could have gotten this done due to the \$50m+ in values and concentration of these values to one location.

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3. An example of a risk that looked straightforward to an agent, but the E&S market is often times not able to write.

This is a dynamic question. Some things are simultaneously straightforward and not. For example, a habitational risk that was found to have electrical concerns (e.g. Stab-Lok). These are typically found at inspection, etc. and can be a much deeper dive than a surface level inquiry would reveal.

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Property Risks and Submissions

- ALL risks are unique
- Not everything is going to be an "ideal" risk.
 - Carrier underwriters understand this.
- A narrative on why a risk should garner consideration for E&S is the key!
- Example, "Think of real estate listings when I approach marketing. Better presentation, effort, etc. can go a long way. Vice versa with a lack of effort or presentation."
- Expectations are to be tempered, somewhat. This is not an instantaneous business. Turnarounds are longer.



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Example #2 of a Risk Opportunity

Insured has a unique, unusual, challenging risk needs insurance coverage

Insured reaches out to Independent Agent

Independent Agent reviews the risk and realizes standard carriers will NOT look at it

- Does not meet their underwriting requirements
- Standard Carriers don't have the "appetite".

Independent Agent brings risk directly to broker

- Broker assess the risk and quotes, or sends out to carriers
- Broker may need to split the risk between specialty departments

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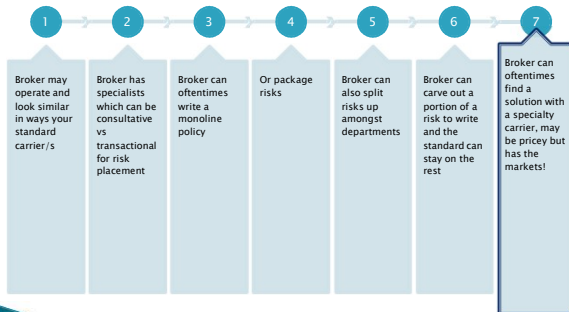
How do I Deal with the Wholesale E&S Marketplace?

- Remember the market is a Supplement and not a Substitute for the Standard Market
- Operations and look may be similar in ways to a standard carrier
- Relationship business – Know your Wholesale Broker
- **You** must cultivate the relationship too
- Regularly use as few as possible



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WHAT MAKES A BROKER DIFFERENT FROM A STANDARD



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EXPECTATIONS?



What are your expectations as a retail agent, and what are the expectations of the broker when choosing who to do business with?



Prioritization



Ease of doing business



Access to markets



Relationship building, with specialty underwriters and others

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Know Your Wholesale/Broker



➤ Know What Each One Specializes In

- What do they do best ?
- What is their appetite?
- Coverage / Classes of Business?

➤ Who Are Their Markets?

➤ Get to know your underwriters.

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Do they have Underwriting Authority?



What is their Binding Authority?



What do they offer with use of Technology and Automation?
Do they accept ACORD applications?



Do they have a website with value
- added information on it to use as a resource?



Can they issue the policy and service it after it is bound?

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Service

1

If You Want Service, The Application Must Be Complete
- Start with an ACORD application where possible.

2

Please make sure the fields are complete in order for the broker to provide you with a quotation, otherwise everyone will waste time tracking down missing information needed.

3

If the broker needs you to complete a supplement or company unique, the underwriters will let you know. Don't leave blanks on supplements; blanks often indicate you don't know your insured or the risk.

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Know Your Client

Before submitting a description of the risk to your underwriter...

- Know your client's business
- Build a good relationship by finding out what coverage is important to them

The National Underwriter has noted in a poll to policy holders:

- They prefer to purchase insurance from an agent who understands them and their business
- Clients like to deal with an agent who knows the marketplace and looks for the best value, which does not mean "the best price"

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Notes and Comments

Include a brief summary. Why is the risk being submitted to the surplus lines market? Include a narrative, tell the story so we can "sell" to our carriers!

Is the account being non-renewed?

Who is the incumbent carrier and what are they offering if anything?

Do you control the risk? Note: Is there information on the history of the account on file in your agency management system you can include?

Who else have you gone to for a quote?

Target date needed to quote and what target pricing are you looking for?

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Before you submit the application, ask yourself...



- › Is the application complete?
- › Those submissions that are complete and comprehensive stand the best chance of getting quoted first.
- › There are no short cuts, even a complete submission may garner more questions from a carrier, and those questions may also uncover more. Manage your expectations and your clients.
- › Again, tell a good story, "Story Selling". Know that sometime inspections uncover items you or your client may not even know about.

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Thank You!
Q & A



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