

THE EXCESS AND SURPLUS MARKET

Why It's an Untapped Book of Business for Insurance Agents

Insurance agents looking to grow their businesses often overlook the excess and surplus (E&S) insurance market. This sector of the market includes customers who are typically turned away from traditional policies, such as standard property and casualty or business owner's coverage. In 2018 alone, E&S line premiums in the U.S. totaled \$31.4 billion, up 11.3% from the prior year. What's more is that several states experienced record-breaking premium totals, including Nevada and Washington, which were each up 23%. As a whole, premiums have increased by 48% in the past 10 years.

Customers who can't get access to traditional coverage may be required to self-insure or go without insurance – greatly increasing potential exposure. The E&S market fills this void, allowing agents and brokers to grow their capacity and revenue and capture more of the insurance market.

Agents are navigating a fast-changing and turbulent environment

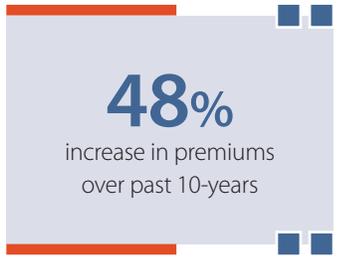
The insurance market has experienced a variety of changes recently, including social inflation (see sidebar), an increase in loss activity, more catastrophic losses and lower interest rates.

Rising insurance premiums are a challenge for carriers and insureds. The average premium price increase for all-sized accounts was in the double digits, at 10.8% in Q2 2020. Commercial umbrella and directors and officers (D&O) insurance rate increases were the highest among all lines, at 20% and 16.8%, respectively, followed by commercial property at 13.3% and commercial auto at 9.6%. A few trends fueling the need for E&S policies include:

Big carriers shedding business. The E&S lines sector grew 11% due in part to standard carriers shedding business. During the first half of 2019, many of the large carriers, such as AIG, Travelers and The Hartford began getting rid of unprofitable business, further fueling this trend.

Reduced umbrella limits and increased premiums. Carriers are reducing umbrella limits while raising premiums and increasing deductibles, citing social inflation and the increased frequency of large-dollar-value verdicts. Carriers are increasing their scrutiny of D&O submissions with additional questions on new submissions and renewal accounts, including questions about COVID-19 risk.

Rise in claims losses. The number of claims losses has also increased steadily during



Social Inflation
The term social inflation refers to the increase in insurance losses caused by multimillion-dollar verdicts resulting from the emergence and growth of litigation financing as well as the proliferation of class action lawsuits, along with jury pools with an anti-corporate sentiment.



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How does Excess and Surplus Insurance help you cater to hard-to-place risks?

E&S helps you cater to customers who fall "outside the box" and assist hard-to-place risks. It's estimated that these insureds makes up less than 7% of the market; however, serving this segment helps you extend coverage to a valuable group of customers.

Insureds that fall into this category may include:

- High-risk industries, such as explosive manufacturing, firearms makers and more.
- Clients who don't fit the typical underwriting criteria, such as bars and taverns with dance floors.
- Industries that require higher limits than those offered by standard markets, such as a \$10,000,000+ liability umbrella.
- Specialty coverage, such as special events, concerts and other unique situations.
- Businesses that have an excess or otherwise unacceptable loss history.

recent years. For example, from 2013 to 2018, commercial auto claims losses increased at an annualized rate of 10.9%, compared with 1% annualized rate from 2007 to 2013.

Retroactive statute changes. Many state legislatures have extended or attempted to extend statutes of limitations and retroactively applied the new time limits to claims where the statute of limitations had expired.

To effectively navigate today's market, agents require a carrier partner committed to transparency, communication, meticulous and flexible underwriting, and robust claims defense.

Forging stronger partnerships assists with serving more clients

Agents navigating the current climate need an E&S partner that specializes in collaboration and helping clients reach their goals. Transparency is a cornerstone of accomplishing this and assisting clients with truly understanding their potential risk and exposure.

More transparency also minimizes the real or perceived coverage gray areas and delivers greater insured understanding. The result is improved client satisfaction and agents who are armed with the right tools to help manage client expectations and mitigate the risk of future disputes during the claims process.

A robust claims defense process plays a key role in improving client satisfaction. For example, social inflation has contributed to underwriting deterioration and profitability for many insurance carries, meaning a case that settled for \$50,000 in the past may settle for tens or even hundreds of millions of dollars today. A robust

claims defense process helps your clients better protect themselves from potential loss.

The benefits of working with a trusted partner

Working with the right partner is key to providing your clients with the level of service that they expect. Prime Insurance provides your customers with customized solutions to manage E&S risks, such as new ventures, and operations with unfavorable loss history – or more favorable risks looking for a better partnership.

We've handled difficult risk and issues within the industry for over 30 years and continue to partner with agents to provide exceptional service and accessibility for even the most difficult risks.

Our focus is on helping agents provide us with complete details during the risk application and submission, which enables us to create a more accurate and streamlined quote process. We are committed to helping agents understand our forms, provisions and underwriting flexibility so that together we can develop a successful strategy for the insured.

Moving into the future

Offering E&S policies helps you future-proof your business. The number of E&S policies is on the rise, and agents who adapt to this trend can better serve their clients while expanding their book of business and capturing more revenue. But the real benefit is helping hard-to-place risks that would have otherwise needed to self-insure or go without insurance. As a result, your agency can assist those customers with finding the best policy that is "right-sized" to their potential risk.

