NU PROPERTY CASUALTY360°

Our Best, Worst Year

This year defined by COVID-19 was tailor-made for E&S insurance market players to write their own 'silver linings playbook.' By Elana Ashanti Jefferson

Among 2020's gloomy economic indicators — the chaotic unemployment rates, widespread business closures and supply-chain problems, just to name a few — the market for excess and surplus (E&S) insurance might provide a silver lining.

At this risk of stating the obvious: 2020 will be remembered as the year of the global coronavirus pandemic. Brady Kelley, executive director of the Wholesale & Specialty Insurance Association (WSIA), can't help but note the personal and professional impact of this event on insurance professionals. "I'm really proud of how our segment rallied to support policyholders," says Kelley, whose organization hosts a virtual Annual Marketplace Sept. 10-17.

"All of us were impacted by stay at home orders or some type of restriction or disruption because of the pandemic," Kelley continues. "Even though many of (our members) were dealing with disruption in their own shops and their own offices, they were absolutely communicative, reaching out to their insureds and offering relief."

Therein lies one of the most notable trends in the E&S insurance market from the past year: The rapidly shifting regulatory landscape. "Right away, we started tracking state bulletins," Kelley recalls of the early days of the pandemic. Most states in the U.S. issued some type of insurance-industry guidance around such policyholder financial accommodations as premium forbearance timelines, payment cancellation and policy renewal adjustments.

"A lot of good things were done to make sure those that were impacted were given some relief, which we strongly supported" Kelley says. At the same time, many states issued guidance quickly and inconsistently. "Our mission was to make sure we had a nice compliance resource so that companies that needed state-by-state information had it right away."

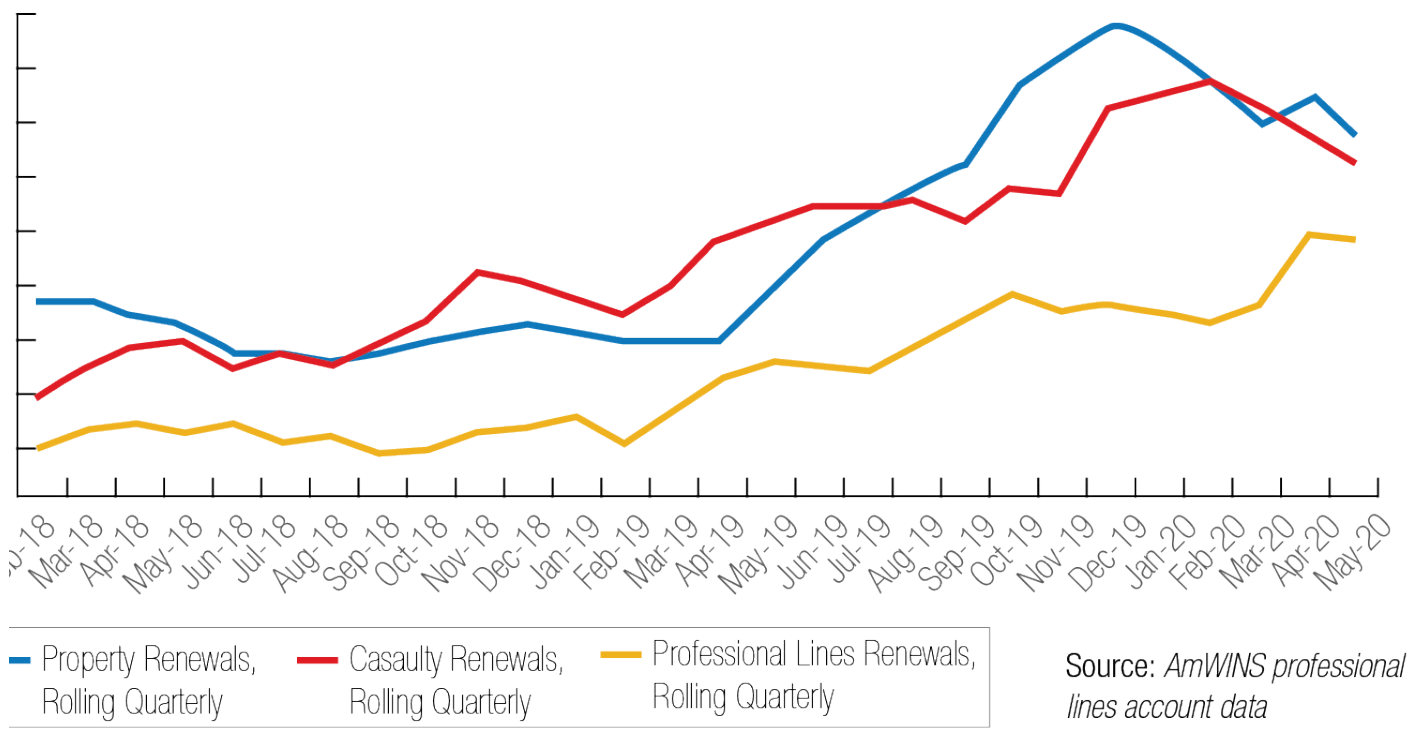
Kelley considers the proverbial second wave of the pandemic's impact on insurance to be the swelling number of business-interruption claims related to the virus along with lawsuits and legislation related to those claims.

"These were policies underwritten and priced with no regard for a pandemic loss," he says. "So we did a lot of work right away to educate lawmakers and regulators about the impact of forcing a carrier to pay a claim that they didn't underwrite or price."

The third financial wave arrived as businesses began to reopen after COVID-19 closures, and that trend continues this month as schools and campuses tenuously come back to life. This phase may open up insureds to lawsuits spurred by individuals who believe they contracted the virus at a particular location.

“General liability for COVID-19 risk is now top of mind,” Kelley says.

RENEWAL PRICING TRENDS



Source: *AmWINS professional lines account data*

He adds that WSIA’s work, along with the future of the E&S insurance market in general, is now tied to how insurance legislation and regulation takes shape with regard to the pandemic (or any other unforeseen and far-reaching catastrophe). He posits: “Is a pandemic insurable? Is it completely un-insurable? Is there an appropriate way to share this risk between the private market and the government?”

The bottom line, Kelley says, is that there would be no way to profitably underwrite another pandemic. “The levels to which private-public groups work together on that is yet to be seen,” he says. “I’m just thrilled we’re moving down that path, because there has to be some longer term, focused solution for the next pandemic.”

Glass Half Full

That sounds a lot like a silver lining.

Bryan Sanders is president of Markel Specialty and board president of WSIA. He says that although uncertainty persists, insurance professionals remain focused on the silver linings they can knit together on the other side of COVID-19. “This new future of work that we’re all looking at in the insurance industry? I think it’s going to help our recruiting efforts as an industry,” Sanders says.

He adds that other industries likely lured away great potential hires because they recognized the appeal of a dressed-down, flexible, remote-work business model before the insurance industry did.

In 2020, however, insurance people became speedy remote-work experts. “I think the future of work is going to provide us better opportunity to attract some of those folks,” Sanders says.

The specialty insurance sector, which has enjoyed sustained growth in recent years, will need the extra help. Surplus lines premium reported to the U.S. surplus lines stamping and service offices in the first six months of 2020 neared $20 billion, up 10.3% over the first six months of 2019. This happened despite longstanding pressures on the E&S market.

“The issues around social inflation were real before the pandemic,” Sanders says. “The impact of natural disasters was already having an impact on the market. The low interest rate environment? All of these things had had an impact before the pandemic.”

As 2020 winds down, the real insurance-business conversation will be about how to survive the pandemic.

“We don’t know where we are yet in the pandemic,” Sanders says. “We don’t know if we’re at the beginning. We don’t know if we’re at the end. But where we are in terms of the market is, it still hasn’t permeated all areas of insurance. There are still some pockets that I would not consider a hard market. There is a firming in some areas, but it’s not across all lines in the industry.”

Other insurance-business silver linings that Sanders sees as a result of the pandemic include increased digital connectivity and technological savvy that has supported more robust communication between brokers and underwriters. It follows that insurance has become a quicker business during the pandemic, Sanders says. And in terms of the quality and strategy around insurance-business metrics, “in the past, we looked at things on a monthly or quarterly basis. Now we have the ability to look at things on a weekly basis better than ever before.”

U.S. SURPLUS LINES SERVICE OFFICES | Mid-Year Assessment

State	% of Change		30-Jun-20		30-Jun-19		Rates		Comments
	Premium	Items	Premium (Millions)	Items	Premium (Millions)	Items	Stamping Fee	S/L Tax	
Arizona	3.19%	2.64%	$363,347,118	45,497	$352,127,819	44,328	0.20%	3.00%	
California	7.84%	3.21%	4,606,128,054	372,630	4,271,130,282	361,047	0.25%	3.00%	Stamping fee increased to .25% eff 1/1/20 from .2% Date range used is based on the date the policy was received by the CA SLA from the broker.
Florida	9.65%	-6.87%	4,161,104,433	608,900	3,794,932,503	653,828	0.06%	4.94%	Stamping fee reduced to .06% effective 4/1/20. Tax rate reduced from 5% to 4.94% for policies issued/renewed on or after 7/1/20. Premium and policy counts shown are based on Submit date.
Idaho	40.16%	6.73%	89,005,822	10,464	63,505,007	9,804	0.50%	1.50%	
Illinois	12.20%	-8.35%	1,025,202,844	71,298	913,688,254	77,793	0.075%	3.50%	
Minnesota	2.46%	2.35%	310,553,397	24,768	303,083,275	24,199	0.04%	3.00%	
Mississippi	6.00%	5.03%	256,048,467	84,339	241,560,004	80,300	0.25%	4.00%	
Nevada	3.24%	4.20%	195,522,468	20,490	189,380,381	19,665	0.40%	3.50%	
New York	5.73%	-5.56%	2,424,700,000	164,388	2,293,400,000	174,063	0.17%	3.60%	
North Carolina	10.34%	2.07%	468,077,034	91,908	424,222,452	90,043	0.40%	5.00%	
Oregon	17.82%	7.63%	251,535,831	35,705	213,487,017	33,173	$10	2.30%	
Pennsylvania	11.53%	-0.86%	783,547,906	112,192	702,563,875	113,162	$20	3.00%	
Texas	13.41%	-3.89%	3,941,263,546	527,541	3,475,143,960	548,884	0.15%	4.85%	
Utah	40.29%	23.06%	215,771,864	24,699	153,804,869	20,070	0.18%	4.25%	
Washington	29.90%	-6.36%	646,296,692	68,298	497,539,180	72,939	0.10%	2.00%	
Totals	**10.33%**	**-2.59%**	**$19,738,105,476**	**2,263,117**	**$17,889,568,878**	**2,323,298**			

Driving in the Dark

Uncertainly about the future, however, is the main headline on the current E&S market. Such uncertainly fosters conservatism, according to Risk Placement Services President Joel Cavaness, who also is a past board president of WSIA, and a self-proclaimed lover of analogies: “If you’re driving a car and it’s raining cats and dogs and you don’t have a clear view of where you’re going, what are you going to do? You’re going to slow down. You’re going to be more cautious. I think that’s kind of where we are today” in the E&S insurance market, Cavaness says.

But that’s not his takeaway from 2020. Cavaness notes that E&S policies remain popular. “Even when the market was in a different state of affairs, our section of the industry was growing,” Cavaness says.

However, the E&S market is changing. It is tightening up in places, and carriers are instituting more restrictive policy limits than they did in the past.

“A year ago, people were willing to provide much more in the way of limits than they are today,” Cavaness says. “Now they are protecting their balance sheets and their exposure to a particular large loss or series of large losses.”

This is due, in part, to social inflation and the “mega verdict” trend in recent years. Cavaness also notes the impact of litigation funding, or an arrangement in which an investor, of sorts, agrees to pay the costs of litigating an insurance claim on the chance that it pays out big at the back end of a lawsuit. As a result, claimants may be less willing to settle their cases out of court, because they’re not on the hook for litigation costs. “That’s definitely been interesting,” Cavaness says.

Ultimate Safety Valve

The E&S insurance market remains the place where insureds turn when they need to cover complex risks. To that end, publicly traded directors and officers liability insurance has seen an increase in the number of entrants.

“It’s a very complicated placement,” Cavaness says of D&O insurance policies. “People are desperate to get better solutions than are currently available from the standard marketplace. And a lot of agents and brokers need the expertise that the wholesale and intermediary firms have.”

Some E&S market watchers also believe that traditional standard lines such as homeowners insurance and commercial auto insurance will begin to move into the E&S market as risks increase and coverage becomes more difficult. This will result in increased competition and demand on capacity.

To remain competitive, many carriers are becoming more niche-oriented.

“That way, they have a deeper and better understanding of the various types of accounts that they’re willing to write,” Cavaness says. “They know the broad range of exposures, so they’re apt to have fewer surprises.”

Cavaness offers one final analogy: “Those that are truly specialized have performed very well through all of this. Those that go into the woods at night without a flashlight and try to feel their way around? They’re the ones that fall into traps.”

The increased availability of high-quality risk data also is driving new entrants into the E&S market place.

“There is a history to this,” Cavaness notes. “You can chart the hard market. It’s happened every single time you’ve had disruption. Smart people with money will jump in and begin to ease some of that shortage of capacity.”

Agents and brokers can distinguish themselves in this shifting marketplace by forging strong client relationships, educating clients about the realities of their insurance needs, and when necessary, having tough conversations about premium pricing. They also need to be creative about how to use adjustments, deductibles and Self-Insured Retention (SIR) policies to help clients realize some premium savings, Cavaness says.

Innovation Nation

Big data isn’t the only high-tech tool making waves in E&S insurance.

“Carriers, agents and brokers have implemented technology to create a more engaging customer experience,” says Michael Parcelli, senior vice president of global solutioning and process consulting at Xceedance, an insurance management services firm. Parcelli has more than three decades of experience in the insurance industry.

“They are implementing analytics dashboards to track product demand, and pricing sensitivities to make immediate changes to the types of available products, while simultaneously communicating line of business capacity — both within carrier operations, and to carriers from agents and MGAs,” Parcelli says. “Carriers, agents and brokers must focus on maintaining their offerings based on insight into policyholder behaviors.”