

Detailing the “Story” of a Risk Key to Using the Excess and Surplus Lines Market

WORCESTER, MASS. — Nearly all property-casualty (P-C) insurance agents, at some point, have had a policy declined by a standard insurance company. Instead of passing on the risk, they should be looking to the excess and surplus lines (E&S) market, according to Jim Keane, vice president of the Strategic Insurance Agency Alliance (SIAA) MarketFinder.

Keane led a session on using the E&S market at the Satellite Agency Network Group's (SAN) annual business meeting. Joining Keane in the session were Tom Crawford, director of marketing, SCU Middletown, a subsidiary of CRC Group, and Chris Watrous, regional client relations manager – East, Risk Placement Services (RPS). They discussed how E&S plays an essential role in P-C, filling gaps for agents by providing insurance solutions for hard-to-place risks for which the standard market does not offer coverage.

“A lot of times we think of E&S as one-off risks, but it is often risks that are declined by the standard market due to the size of business, loss history, etc. Maybe you write a restaurant with a dance floor that is open until 2 a.m. and has 60% liquor receipts. Suddenly, that standard risk becomes nonstandard, and you have to look to the E&S world. It's often a good risk, you just need to make sure to find the right place for it,” said Keane.

Admitted Versus Nonadmitted Carriers

Agents are often more concerned about whether a carrier is admitted or nonadmitted rather than issues of greater importance, according to Keane. “Many people think nonadmitted carriers are inferior and not as good as admitted carriers. That's a problem, and it is just not true. The largest insurance company in the world is Lloyd's of London, and it is not admitted. If it goes under, we are all in trouble,” said Keane.

While there are clear differences between admitted and nonadmitted carriers, Keane tried to dispel some of the more popular myths, namely that nonadmitted carriers are unregulated.

Admitted carriers are licensed by the states where they write and must adhere to rate and form regulations. “Nonadmitted carriers are all regulated by the DOI, but they aren't protected by a state's guarantee fund. That's true, but protections provided by the guarantee fund are usually limited. It's far more important to look at the carrier's financial ratings to make sure it will be around for the long term,” said Keane. As an example, Keane explained that Company A might be an admitted, B-rated company by A.M. Best. Company B might be a nonadmitted carrier with an A++ rating. “I'm far more comfortable placing my customer with a company that I know

is going to be around for the long term than with a B-rated company. That B-rated company may also not be covered by your E&O,” he said.

Between 2003 – 2015, Keane noted that there were 172 impairments in the admitted market. Since 1997, there have been 55 nonadmitted impairments compared to 961 admitted impairments.

Making the E&S Process Easier

What does a good E&S submission look like? It starts by being complete. Agents need to make sure that the application forms are filled out properly and that loss runs for the last three to five years are included whenever possible. “I don't know any underwriter who doesn't like loss runs. If you can't provide loss runs because it's either a new account or a small risk, mention that upfront,” said Keane.

In addition, complete E&S submissions include a brief summary of the account and have completed ACORD forms as well as completed supplemental applications if needed.

“Trying to paint a picture for somebody on an ACORD form is difficult. So, type up a few sentences about the risk to let underwriters know what the risk actually is, and they will feel a lot more comfortable,” said Keane.

For Crawford, a good submission is one

that gets his attention and tells him the story about what the client's need is. "The key to a good submission is the story. We've been around for a long time, so we don't need practice in quoting. Our job is placement. When you're looking for wholesalers, their job is to place business for you — not just to quote it, but to place it," he said.

Watrous agreed that detailing the story of the risk is vital to placing coverage. "We're an extension of you and getting the story is key. You focus on the standard market, so the E&S market may seem scary at times, but don't pass on opportunities because they may be scary. They shouldn't be, and that's what we're here for."

Avoid Blocking the Market

Utilizing multiple wholesalers to write an E&S risk does not typically increase the chances of writing it. Brokers tend to have overlapping markets, with Keane estimating that 80% of their markets are the same. Sending a risk to

multiple brokers at the same time frustrates them, ties their hands and blocks the market.

"Minimize the number of brokers you're using. If you work with more than one, tell the second broker that you already went to Company A. It will make them feel better and save them time," said Keane.

Pay Attention to the Details

E&S policies and forms vary greatly from one another, so it is important that agents pay careful attention to the details of the quote, such as what the payment terms and minimum earn premiums are. In addition, verify coverages and exclusions.

"If there's an issue, such as with a deductible waiver or with policy limitations, and it's something you never brought up to your client, there will be coverage for that — it'll be your E&O coverage. You need to read and understand [the forms and policies], so you can explain it to your clients," said Keane.

Q&A With E&S Specialists

Keane, Crawford and Watrous expounded on the E&S market in a question and answer period with session attendees.

Do you want a story of a risk first to determine if it is worth the agent giving you more quoting information?

Crawford: I would get in a submission first, then call. The story is you and the application. In E&S, you've got to have speed. Get it logged in, so we can get it to the marketplace.

We've had deals on Friday afternoons that we've done in 15 minutes, but that's because we have all the information. Look at the umbrella ACORD 131. We get applications that say, 'Please quote a \$1 million umbrella.' They list the carriers and the limits, but no premiums. We need all that to rate, so then we have to go back to you. The easier you make it for us, the quicker we can do it.

Another advantage for E&S business is that it's nonadmitted paper. It's a manuscript, so we can do things with a lot of creativity to change a program to make it more palatable. One of the things I like best about the E&S business is that we can be creative.

Keane: Often, the nonadmitted market can do things the standard market can't do. It might be a good risk, but it is a Protection Class 10. Maybe it's a mixed habitation or mixed-use building. Those are good risks that just don't fit into the standard market.

Watrous: When we get a submission, it's always last minute with no time to spare. So the more of a story you can give us, the better off we'll be because it helps expedite it on our side and yours, so you can deliver it to your client.

Some applications do not have much space to provide details of the risk. Should I put it in the body of my email or do you want a supplement to the application that gives you all the detail?

Watrous: Every underwriter is different. Not every underwriter is diligent about reading the email, but the more information, the better. You're doing the right thing. If you want to tell the story, and it doesn't fit on the application, then make sure it's somewhere.

Keane: In every company, there are good and not-so-good underwriters. Sometimes you get to someone who doesn't read the email, and that's not acceptable. The beauty of large organizations is that you're not stuck with one person. Don't be scared about a risk. That's what they are there for. If it was perfect, it would be in the standard market.

Crawford: If I'm asking for you to tell me the story, and then don't read it, shame on me. Address problems with the underwriter's manager. Don't go find another wholesaler. If there's a problem that we don't know about, we can't fix it. We can switch and get you someone else to work with. Don't be afraid to say there's a problem. ■

What is a good E&S story?

David Collins, agency development field specialist, Eastern New York, Vermont and Western Massachusetts, SAN Group, detailed what E&S carriers are looking for agents to write in their brief narratives about the risk. He said the narrative should be similar to this example:

I have this account, and I went to all the standard markets. It is a PC-10 class business that has two claims. This is what the client is doing; this is what they've done with the property; this is what they are doing to overcome the losses. Currently, they are with ABC Insurance Company that is nonrenewing the account. I've been declined by everyone in the standard marketplace. The client is currently paying around \$3,800. What can you do for us?

"That's a narrative explaining the details of why you need them. That'll help them the most," said Collins.

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