

# BEST'S REVIEW® ISSUES & ANSWERS:

## ENTREPRENEURIAL AGENT AND SPECIALTY LINES

Industry experts discuss the outlook for specialty lines and how insurers adapted to doing business during a pandemic.

### Interviewed Inside:



**Bryan Sanders**  
WSIA



**Chris Gallagher**  
Sompo International Commercial P&C

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## SOME THINGS WORK BETTER TOGETHER.

Like working with a Wholesale & Specialty Insurance Association member to find a custom solution to a nonstandard risk. WSIA members will help you craft cost-effective, innovative solutions for your specialty and nonstandard risks. Combining the strength of the former AAMGA and NAPSLO organizations, WSIA members are your source for expert solutions.



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# WSIA Members Deliver Value

WSIA President Bryan Sanders said member firms meet specific criteria to be eligible for membership and are proven experts in their field. “Members are also able to participate in industry networking and education opportunities that help them stay on the cutting edge of their field and develop strong relationships with trading partners that benefit the insured,” he said.

## What is the Wholesale & Specialty Insurance Association, and who are its members?

WSIA is the only trade association that serves the entirety of the wholesale, specialty and surplus lines insurance industry, with domestic and international wholesalers, wholesale-dedicated insurance markets and service provider members comprising the U.S. wholesale insurance distribution system. The wholesale distribution system delivers tremendous value to retail agents, insurance buyers and consumers. WSIA members are technical experts and specialists in creating innovative solutions for complex risks.

## How do WSIA members help agents meet their clients’ needs?

Retail agents and insureds can look to WSIA-member wholesale brokers for access to markets, coverages and options they might not be able to find in the standard market. The wholesale broker’s expertise can help agents and their clients identify the right coverage in the right market. It’s also important for agents and insureds to know that there is no cost associated with seeking a wholesale quote, so it’s risk-free. A 2016 Conning Inc. analysis concluded that wholesale distribution does not increase the cost of the transaction to the insured, which makes consulting a wholesale expert a common sense approach for insurance buyers.

## What is the outlook for the wholesale market and WSIA members?

The wholesale, specialty and surplus lines market is at a record level of surplus lines premium, and surplus lines carriers continue to maintain a higher proportion of secure financial ratings than the overall property/casualty market. The *2020 Best’s Market Segment Report, U.S. Surplus Lines*, found growth of 12.8% in surplus lines direct written premium in 2019, with surplus lines premium totaling a record \$56.3 billion and no financial impairments in the surplus lines segment during 2019, in contrast to 13 admitted property/casualty company impairments during the year.

A recent report from the 15 states with surplus lines stamping offices also indicates that premium is continuing to grow. Total surplus lines



- A nonprofit association of insurance professionals and specialty market leaders dedicated to the wholesale distribution system.
- Serves more than 730 member firms representing approximately 1,700 offices and tens of thousands of industry professionals.
- Provides world-class member services including networking, education, talent development, legislative advocacy and promotion of the value of wholesale distribution.

## Bryan Sanders

WSIA President  
Market Specialty President



“We continue to see the strong economy, increasing demand for solutions to emerging risks, and product innovation as key drivers of growth.”

premium reported to those states in the first half of 2020 was \$19.7 billion, which is a 10.3% increase over the prior year.

The surplus lines market has more than doubled in size during the past 20 years, growing from 3.6% of the total property/casualty direct written premium in 2000 to 7.8% at the end of 2019, and surplus lines grew as a percentage of commercial lines direct written premium from 7.1% to 16.2% in that time. I think this demonstrates that the market serves a critical role in the insurance industry and overall economy, and these figures demonstrate the financial strength and operating performance of market.



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# Rising to the Challenge

Chris Gallagher, CEO of Sompo International Commercial P&C said the company has experienced some fundamental changes. “Moving forward, our new structure will allow us to go and organize ourselves in such a way so as to present a better product to clients and distribution partners,” he said. Following are excerpts of an interview.

## What impact has COVID had on balance sheets?

While the industry had adequate capital pre-COVID-19, this really is the perfect storm, hitting both assets and liabilities. In Q1, you saw the initial shock to asset values, and then the emergence of the liabilities associated with claims emanating from COVID-19. With that, we’ve seen depression of solvency ratios across many of our peers throughout the industry. At Sompo International, we were fortunate our solvency positions remained relatively stable. With that, I think you’ve seen the response really from Q1 and Q2. We’ve seen a number of debt raises, equity raises, and while many of those were cited against seeing opportunities from 2021 and beyond, there is an element of securing the balance sheet. We’ve seen that response coming from many of our peers in the industry, because there was a severe hit to the balance sheet.

## What other challenges is the industry facing?

The legacy that COVID-19 will bring on the liabilities side, and government actions as a response to the pandemic, providing that relief on the assets side. Ultimately, it leads us to a very, very low interest rate environment across most of the world’s major economies. For many of us, executives and boards looking at strategic plans that we established one or two years ago, the one big impact we see is on the investment income that we’ll be able to achieve, particularly in the short term. Secondly, we’re coming off the back of a 10-to-15 year decline in the pricing environment for our commercial P/C business. That’s set against the backdrop of increasing severity of natural catastrophe events and the backdrop of climate change. We have no choice but to correct the pricing across many of our products.

## Are you seeing opportunity amid all this turbulence?

We are, at Sompo International, in a number of areas. Our solvency position has remained stable. That means our risk appetite is unchanged, while many others are facing a depressed risk appetite. We were able to step in with stability, demonstrating the strength of our balance sheet to our key global clients and distribution partners. That allowed us to transact business that maybe we wouldn’t have done so before by putting amendments through products,



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## Chris Gallagher

CEO  
Sompo International Commercial P&C



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but with a consistent risk appetite that allowed us to secure business opportunities. Also, it’s important to note, that throughout COVID-19, we have been able to reinvest in our platform, including retaining and securing talent, some of which has become available just due to the uncertainties at other carriers.

## What will change when we all return to the office as a result of what we’ve learned over the past year?

We learned a lot about ourselves and our industry in 2020, and in my view, as a CEO, I think we’ve done pretty well. We’ve adapted. Our operational processes have been put under a huge amount of stress, but they’ve been tested, and we’ve come through it pretty well. We’ve tested remote working in a way I don’t think any of us ever thought we would, and we’ve shown it can work for elements of business. That said, we’re missing that face-to-face, those touch points, that creative thought that comes when we’re together. I think we’ll find a balance going forward.

