

BEST'S REVIEW® ISSUES & ANSWERS: EXCESS AND SURPLUS LINES

Insurers discuss how they are supporting and developing specialized coverages that match the unique needs of their risk.



Interviewed Inside:



Kristin Stein
PHLY



Bryan Clark
WSIA



Ashley Moffatt
Nationwide

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Philadelphia Insurance Companies is the marketing name for the property and casualty insurance operations of Philadelphia Consolidated Holding Corp., a member of Tokio Marine Group. All admitted coverages are written by Philadelphia Indemnity Insurance Company. Coverages are subject to actual policy language.

E&S Is a Relationship Business

Kristin Stein, vice president, PHL Y E&S Insurance Solutions, said the company focus this year is on the value of human connection and relationship building. “Virtual visits and webinars are here to stay, but nothing replaces the value of getting together in person and building rapport with our clients,” she said. Following are excerpts from an interview.

What is your outlook on the E&S market in 2023?

The E&S market continues to grow and change as it always has. Some experts put the industry at \$130 billion by 2030. There are so many factors that affect how business is placed throughout the country, most of it driven by the actions taken by the admitted marketplace. These actions occur due to appetite changes brought about by catastrophic events such as weather-related events or economic issues. Social inflation is something that has had a huge impact on the industry over the last several years and continues to drive risks into the E&S space. The E&S market will continue to see growth in 2023 because E&S carriers are able to adapt to these market changes and have the flexibility as it relates to coverage concerns and pricing restraints.

What changes are you seeing due to COVID?

The first is the importance of having the right systems in place, not just for employees—and the ability for them to do their jobs efficiently and effectively—but also for our customers. Having an environment that allows our clients to be in the driver’s seat and focus on speed of service and ease of doing business is crucial to the success of E&S markets post-COVID. At PHL Y E&S, we recognized how important this is in today’s world, and we’re excited to be launching a small-business contracting portal that will give our agents the ability to quote and bind small-business contracting risks between \$1,000 and \$7,500 in premium. The second factor directly related to COVID is our willingness to adapt to change. Overnight, we were forced to work in a 100% virtual environment. We were forced to learn new ways to work with our customers, maintain visibility and foster relationships. Now in 2023, it’s about finding the right balance between this virtual world we became accustomed to and the undeniable benefit of in-person interaction. We all know this is a relationship business, and, while virtual meetings and webinars are great, nothing takes the place of meeting with your agents and co-workers in person.



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Kristin Stein

Vice President
PHLY E&S Insurance Solutions



“At PHL Y, we work with our agents to address the needs of our customers by evaluating risks to determine the best coverage and terms we can provide our insureds during their times of need.”

Visit the Issues & Answers section at bestsreview.ambest.com to watch an interview with Kristin Stein.

What is PHL Y E&S doing to address this ever-changing marketplace?

At PHL Y, we work with our agents to address the needs of our customers by evaluating risks to determine the best coverage and terms we can provide our insureds during their times of need. As a result of the COVID pandemic, more and more people are working remotely and many businesses were temporarily closed—or, in some cases, they were unable to recover and went out of business or closed their office space. These circumstances led to more vacant properties all across the country. At PHL Y, we saw the need and provided a home for the general liability, property and excess coverage needed for those clients. We’re also seeing a lot of manufacturing plants being brought back to the U.S. E&S is often considered the market of last resort, but with product deals it can be their first option. Many admitted markets choose to stay away from new venture product accounts, which makes E&S the perfect fit for some of these opportunities.



THERE ARE NO BAD IDEAS,
JUST BAD DECISIONS.



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Some decisions are too precarious to take on alone. You need a partner who can help you create the right solution for your client's risk, while minimizing yours. Choose a WSIA member to craft cost-effective solutions for complex risks. In fact, it's so cost-effective that a recent analysis by Conning, Inc. concludes that wholesale distribution does not increase the cost to the insured. That's a good decision!



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WSIA MEMBERS ARE INSURANCE
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THE WHOLESALE DISTRIBUTION SYSTEM.

Record Level Growth

Bryan Clark, president, WSIA and Gorst & Compass Insurance, said the wholesale, specialty and surplus lines industry was built on, and thrives on, innovation. “Rapid technology development and emerging risks are where we excel, and we can meet the demands for customized coverage,” he said. Following are excerpts from an interview.

The surplus lines segment continues to experience growth. How much is it growing, and why do you think the E&S market continues to be so strong?

The market has grown to record levels, according to both a recent AM Best report and the 2022 Stamping Office Annual Report. The September 2022 *Best's Market Segment Report: Record-High Direct Premiums Written for US Surplus Lines Segment in 2021* indicated growth of 25% in surplus lines direct premium written in 2021, which is a record of \$82.7 billion. The 15 states with surplus lines stamping offices—which accounts for approximately 66% of all U.S. surplus lines premium, making it a valuable indicator of the entire market—just reported an increase of 24.1% in surplus lines premium for 2022. That report also indicated a 6.9% increase in transactions.

Where do you see the greatest demand and growth right now?

The stamping offices are reporting growth across the board, but many noted that property, professional liability and construction are all in high demand, and cyber coverage is consistently cited as a significant driver of growth. That is not terribly surprising, given the evolving nature of that coverage. Cyber isn't necessarily an emerging risk, but the E&S market is uniquely suited to address its expanding impacts, and demand for it continues to increase.

As a surplus lines industry professional, what advice would you offer about how and why to access the wholesale distribution system for these risks?

The wholesale distribution system delivers tremendous value to retail agents and insureds, without increasing the cost of the transaction for the insured. There is never a cost to seek a wholesale quote, so it's zero risk, and there can be a high return for buyers who need an expertly crafted solution. We work with these unique and emerging risks every day, and we have access to different markets and the skill to create a policy that offers a customized solution. It's also important to remind retailers that a 2021 Conning Inc. analysis found



About WSIA

- A nonprofit association of insurance professionals and specialty market leaders dedicated to the wholesale distribution system.
- Serves more than 730 member firms representing more than 1,600 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 Clark

President, WSIA and Gorst & Compass Insurance



“The wholesale distribution system delivers tremendous value to retail agents and insureds, without increasing the cost of the transaction for the insured.”

that wholesale distribution does not increase the cost of the transaction to the insured. That analysis determined that the cost of wholesale distribution was lower than retail distribution by 1.8 percentage points. That's a win for the retail agent and the insured.



Product manufacturing

Real Expertise. Real Specialization.

From property and casualty to personal lines, our excess and surplus team specializes in complex and hard-to-place risks with tailor-made solutions that work.

A+
AM Best FSC XV
(12/1/2022)

A+
Standard & Poor's
(5/7/2021)

Fortune
100
company

Excess & Surplus

Experience our expertise: nationwide.com/experience

Products unavailable except through a licensed surplus line broker. Availability varies by state. Policy eligibility is subject to underwriting qualifications and approval by the insurer writing the policy. Insurance products underwritten by eligible surplus lines insurer affiliates of Nationwide Mutual Insurance Company, One Nationwide Plaza, Columbus, Ohio, 43215-2220, including Scottsdale Insurance Company (unlicensed except in AZ, DE and OH), Scottsdale Indemnity Company (unlicensed in AZ and DE), or Scottsdale Surplus Lines Insurance Company (unlicensed except in AZ and NJ). Scottsdale Surplus Lines Insurance Company is not an eligible surplus lines insurer in CA. Nationwide, the Nationwide N and Eagle, and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. AM Best A+ (12/2021, The second highest of 16 ratings). Standard & Poor's A+ (5/2021, The fifth highest of 21 ratings). ©2022 Nationwide.



E&S Market Leader

Ashley Moffatt, SVP Brokerage, Primary Casualty for Nationwide E&S, said their ultimate goal is to be a top 10 carrier with their key distribution partners. “Some initiatives that I’m particularly excited about include investing in third-party tools and technology to enhance our data-driven decisions, as well as building out new product offerings to promote profitable growth opportunities,” she said. Following are excerpts from an interview.



Nationwide[®]

Ashley Moffatt

SVP Brokerage, Primary Casualty
Nationwide E&S



“I’m thrilled about all the amazing work that’s been done and will continue to be done to make us a carrier of choice in the E&S brokerage space.”

Visit the Issues & Answers section at bestsreview.ambest.com to watch an interview with Ashley Moffatt.

What’s driving the flow of business into the nonadmitted market?

Several factors continue to drive business into the E&S market, including higher economic and social inflation, nuclear verdicts, climate risks, supply chain disruptions and the courts reopening after pandemic lockdowns. These things create uncertainty and risks in the traditional commercial insurance space. The E&S market is uniquely qualified to respond to these changing market dynamics, and we continue to serve as that relief valve for the difficult-to-place coverages, emerging risks and complex risks.

Are you seeing an increase in difficult-to-place risk?

Yes, we certainly are. The brokerage individual risks sector, in particular, is designed to pivot with those market cycles. Naturally, as more of this tough business finds its way to the E&S market, it’s going to land on our underwriters’ desks. Our brokerage underwriting team has the expertise to provide creative solutions for larger, more complex risks. We can utilize a choice of different rating plans, both industry, company and manuscript endorsements, policy supplements and deductible self-insured retention options. Our staff has the expertise to tailor the policy needs to fit a wide range of industry classes.

Has the E&S sector been immune to the talent gap that other sectors are facing?

The E&S community has certainly not been immune to the talent challenges that the other sectors are facing. The COVID-19 pandemic has resulted in a very competitive hiring environment as employers compete for a limited pool of workers. While no company is completely immune to these external factors, I am pleased to say that Nationwide E&S has been very successful at attracting and retaining top talent. We’ve worked hard to build a culture where everyone feels valued and empowered to make decisions, a culture that’s recognized for being diverse and inclusive. Finally, we have

a strong focus on talent management to help ensure that we have the strength we need for the future. It’s no secret that in the E&S world, specialized expertise wins the day, which is why our entire E&S leadership team feels passionate about investing in our people to unlock their top potential.

What makes Nationwide E&S a leader in the surplus line sector?

Our E&S team’s guiding principle is to protect customers with unique risks that the traditional insurance market can’t serve. How do we do that? With world-class underwriting, specialist-to-specialist expertise, and deep mutual partnerships. Nationwide’s brand recognition, financial strength and breadth of product and appetite make us stand out as a market leader. In brokerage specifically, our leadership team has been heavily focused on important strategy work, building up the capabilities to scale our business in a deliberate and meaningful way. On the nonconstruction side of our business, we’ve rolled out a new products manufacturing appetite for both primary and excess casualty, and we’ve made some solid tactical hires to significantly grow in these classes.

