

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

Insurers discuss how artificial intelligence and data-driven analytics are impacting the sector in various ways.



Interviewed Inside:



Stephen Decker
PHLY E&S Insurance Solutions



John Anthony
Nationwide E&S/Specialty

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E&S Is a 'PHLY Special'

Stephen Decker, AVP, PHLY E&S Insurance Solutions, said that artificial intelligence, among other things, is having a huge impact on the surplus lines sector. "The industry is making tremendous strides in the use of data, analytics, technology and AI, and you're seeing it especially when it comes to modeling," he said. Following are excerpts from an interview.

What are some of the biggest challenges facing the industry and how does that relate to surplus lines?

It's a very challenging market right now. We're in the midst of an extremely hard market for just about every line of business. Looking at the casualty lines of business, everyone's concerned about capacity and limits, particularly for excess casualty. On the property side of the house, we've seen record natural disasters, year over year, creating some really challenging conditions there as well. As for how this relates to surplus lines, the E&S market has traditionally been the so-called safety valve of the industry, providing capacity and providing creative solutions in challenging times. The E&S market has really grown in the last few years as it continues to provide the solutions that have eluded the standard lines carriers.

What's the market outlook for E&S?

We're definitely in growth mode. In the last five years, we've seen double-digit growth in the E&S marketplace year over year. In 2018, the total E&S marketplace was around \$34 billion. By the end of 2022, it was just under \$100 billion. Given the current market conditions, that growth trend is expected to continue.

Are there any particular risks or emerging risks that you're keeping an eye on?

One of the biggest is climate risk. While it's technically not new or emerging, it's becoming more challenging. We've seen a lot of natural disasters. We had gone through a cycle of fewer natural disasters, and, as a result, a lot of capacity came into the market. Rates continued to get depressed in a very competitive environment. When the natural disasters eventually returned, like they always do, insurers and especially reinsurers felt the pain. The market has definitely shifted quite a bit with the return of natural disasters. One of the things that we've also seen that's newer to the industry is the so-called convective storm exposure. On top of that, you've got economic inflation. The cost of labor, the cost of materials—when these losses do happen, it costs more to settle the claims.



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Stephen Decker

Assistant Vice President
PHLY E&S Insurance Solutions



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

What separates PHLY E&S from its competitors?

We have a few things that separate us. First and foremost is our financial strength. We're one of the few A++ rated carriers. We're in a current challenging market where you need to be sure that your carrier is going to be in business and be able to pay your claims. PHLY definitely has a reputation for that. We're in a very strong position there. We're also a very service-oriented company. Customer service is very important to us. We do our best to turn around things quickly, pick up the phone, answer our policyholders and agents who need us, and work off limited information sometimes.

We're not always going to have every piece of information on an account, particularly on small business accounts. We try to gather the most relevant information and turn around a quote, maybe subject to some things, just to get something on the table for our agents.



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Data-Driven E&S

John Anthony, Senior Vice President, Contract P&C and Excess, Nationwide E&S/Specialty, said he sees an ever-expanding opportunity in the surplus lines sector, “which is one of the things that we’re looking to sophisticate on within the risk selection process to be able to handle a lot of these new and dynamic risks.” Following are excerpts from the interview.



Nationwide®

What recent market trends or shifts have you observed in the E&S sector?

We’ve seen less differentiation between the standard market and surplus lines. Many of the standard carriers have purchased or added a surplus line carrier to their portfolio, and the gap between the two markets is not as wide as it used to be. The growth in the surplus line market indicates that many of the classes of business that were once staples of that standard market are now being handled by those surplus lines carriers due to the flexibility that the surplus lines market provided in evaluating a risk. We also see things like coastal-exposed business and severe convective storm-exposed business where standard carriers are exiting the market because of the volatility and the increase of the storms that we’re seeing due to some climate change activity.

What emerging risks or industries are increasingly seeking E&S coverage?

Recently, we’ve seen the emergence of cybersecurity, artificial intelligence, things such as cannabis, and some products in heavier manufacturing in a new and innovative product manufacturing space. We have the ability to adapt our appetite to take advantage of these opportunities as they’re emerging before they may have the industry data around them that standard companies need to feel comfortable writing that business. We place a heavy amount of diligence and scrutiny on a lot of our emerging risks, but we are always looking to take advantage of a newer opportunistic marketplace.

How are regulatory changes influencing the excess and surplus lines market?

Recently, we’ve seen a lot of social and economic macro-environmental factors driving our marketplace from a regulatory perspective. I truly believe that the regulatory environments in most areas see the value of E&S and are trying to balance consumer protection, but also an advantageous regulatory environment to bring in capacity where there may be a lack of opportunities for insureds to place their homes or their businesses.

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■ AM Best Rated A (Excellent)

■ 6th largest U.S. domiciled Excess and Surplus insurer

John Anthony

Senior Vice President, Contract P&C and Excess
Nationwide E&S/Specialty



“At Nationwide, we believe that our data-advanced analytics and modeling journey is that of collaboration and insight. We’re looking to bolster our already superior industry relationships.”

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

What makes Nationwide a leader in the E&S space?

There are a lot of things that make Nationwide a leader in the E&S market space. Our financial strength, our specialized underwriting expertise, the breadth and depth of our product and appetite, superior engagement model with our distribution partners—all of those factors combine to make us a market leader. Our ability to leverage and our nimble framework that we’ve built our portfolio off of allow us to adapt to an ever-changing and dynamic marketplace with a consistent underwriting philosophy. It allows us to be a steady force in that market, giving the partners and the policyholders the assurance that they can rely upon us in perpetuity.

