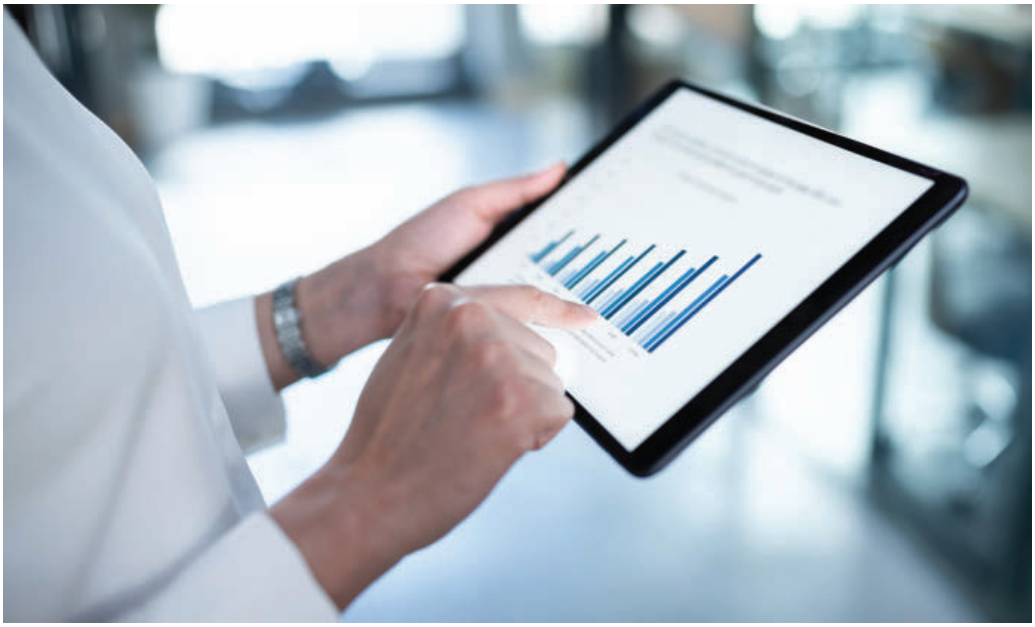
The State of the E&S Market

Despite having an exceptional year, the excess and surplus market has had its fair share of hurdles to overcome.

By Alex Wright



Despite several new risks and inflationary pressures, E&S markets are expanding.

The excess and surplus (E&S) market has undergone stellar growth this year, with premiums and submissions both set to increase.

Premiums rose 32.4% to $31 billion in the first half of 2022, while year-on-year premiums increased at their highest rate since 2009, according to the U.S. Surplus Line Service and Stamping Offices.

Premium bearing transactions also hit a five-year high of almost 2.8 million for the first six months of the year, up 9.6% on the first half of 2021, Wholesale and Specialty Insurance Association records show.

The E&S market's key strength is in providing affordable and innovative coverage to needs that are difficult or impossible to insure in the traditional market. This has never been more prevalent than over the last 12 months.

"The sky is the limit for the E&S market," said Kyle Burnett, head of E&S property at Swiss Re. "There has always been a need for E&S brokers and carriers, whether it was large or small, in supporting a submission or placement, but now more than ever the capacity and skill set is needed."

Despite its undoubted success, the market faces challenges, including the current inflationary environment, both economic and social; heightened competition from a huge influx of new entrants; and a shortage of talent.

Nuclear verdicts have hit certain lines, particularly in sexual abuse and molestation, assault and battery and wildfire cases, and losses, most notably in property catastrophe, where there have been capacity shortages in high-risk areas such as California, Florida, Louisiana and Texas. Insurers have pushed for higher rates in these segments, tightened terms and conditions or simply exited the space.

In California alone, the growing threat of wildfires and reduced admitted capacity has led to a significant increase in demand for E&S homeowners coverage. Direct written premiums filings have almost tripled since 2018 to $235m, according to S&P Global Market Intelligence.

"While the surplus lines and specialty commercial markets have benefitted from a favorable pricing environment over the past few years, the reason for the push for pricing increases is that the performance on several lines of coverage has been trending unfavorably," said David Blades, associate director at A.M. Best.

"These lines include catastrophe-exposed property, general liability for moderate-to-higher risk manufacturing and construction exposures along with tougher professional liability lines, and commercial automobile.

"This has been reflected in the underwriting performance of a number of surplus lines companies. Upward pressure on pricing appears to be decelerating with additional capacity entering the marketplace, so individual carriers will have to balance where they feel they are presently in terms of rate adequacy on individual accounts with the desire to push for additional pricing increases, where they deem those increases are needed."

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INFLATIONARY CHALLENGES

Inflation has resulted in rising claims costs and challenges in pricing risk. Compounding this is a claims backlog due to pandemic-related court closures.

Also, as a result of the increased competition from newly-capitalized and re-capitalized insurers, and managing general agents on the distribution side entering the market — reflected in the fact that 14 of the top 25 biggest players' market share declined in 2021 according to S&P Global Market Intelligence — pricing increases have generally started to level off in the last couple of years.

"Some carriers are still reluctant to put up full capacity or large chunks

SUMMARY

- ***The excess and*** surplus market has experienced a year of notable expansion.
- ***Both premiums and*** submissions are on the rise.
- ***Challenges still plague*** the market, with nuclear verdicts and inflation being contributors.

of layers, so there's still a push to fill out these gaps in these programs for insureds," said Dawn Brost, SVP at Nationwide. "At the same time, the attractive rate environment has been broadened by the new capacity coming into the market."

The need to attract and retain new talent continues to be an issue, as the void left by retiring professionals goes unfilled.

"The most often heard challenge facing the E&S market remains finding and retaining specialist underwriters," said Michael Garrison, The Hartford's head of Navigators Wholesale. "We are all in the same race to find, hire and train underwriting resources to support recent growth and prepare for the future."

NEW RISKS

Despite the challenges, the E&S market has capitalized on the opportunities presented by the flight of insureds from the traditional space.

In particular, it has tapped into the need for coverage for new risks such as cyber and cannabis, as well as more traditional ones like certain classes of public and private directors and officers, habitational real estate, New York City construction, transportation and health care.

"Freedom of rate and form allows E&S insurers to move faster to meet ever-changing conditions," said Erich Bublitz, head of E&S at AmTrust Financial Services. "The market has come into its own over this inflationary period of uncertainty, where new business is being driven into the space as brokers, insureds and their risk managers have become more familiar with it."

As well as increasing premiums, submissions have been on the rise too.

"We are seeing an increase in submissions for specific classes of business, but renewals have remained steady with brokers focusing their efforts on new business opportunities that have become problematic from a pricing or terms and conditions standpoint," said Laura Johnson, underwriting manager and E&S general liability team lead at AXA XL. "There is some uptick in risk managers looking at E&S.

"What was a standard retail play is shifting to E&S as an output due to the creativity of this segment. We expect to see this in the product area first as this is where E&S and risk management are closely aligned."

TECHNOLOGY SOLUTIONS

Improved technology and data will enable insurers to take on more submissions, process them more efficiently, improve underwriting decisions and expedite account handling. Automating the procedure to carry out more transactional tasks frees up underwriters to focus on the more complex and critical ones.

"The unique market we are in today has demonstrated the innovation there is in the wholesale and E&S marketplace," said James Drinkwater, president of AmWINS.

One fact is for sure, however: the E&S market is more active than ever, with construction projects resuming, and hospitality, retail and travel reopens. Concurrently, insureds and their brokers are seeking more capacity to fill out their insurance programs.

In this vein, E&S will continue to play a key role moving forward. It will be vital in addressing a host of current and emerging risks, particularly as companies and their boards come under increasing pressure from their shareholders to conform with new environmental, social and governance requirements. &

ALEX WRIGHT is a UK-based business journalist, who previously was deputy business editor at The Royal Gazette in Bermuda. You *can reach him at riskletters@theinstitutes.org*.