



Smart Solutions *for Agents* in this Hard Market

As markets continue to harden, a previously small slice of the property and casualty sphere has made headlines as a busy – and growing – insurance sector. Excess and surplus line premiums topped \$31 billion during the first six months of 2022. Most experts predict continued growth well into 2023.

The time is right for independent and many dedicated agents to enter the E&S market and fill gaps left by non-renewals and tightening guidelines from standard carriers. Surplus lines have long served to cover special financial risks that standard insurers won't touch. Now, these lines could be more important than ever.

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Bright Spot in a Hard Market

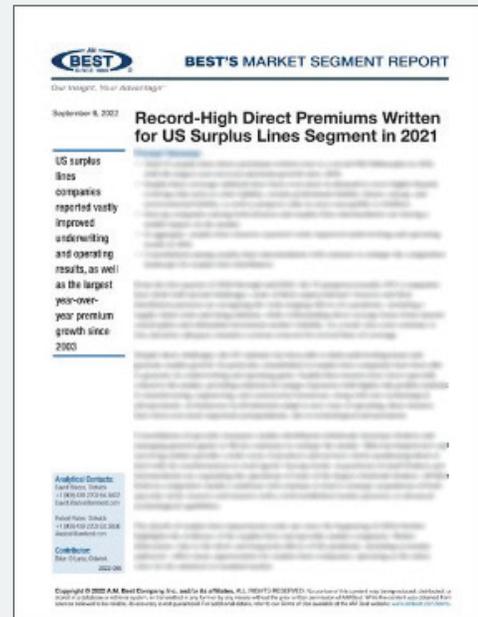
Insurance markets are cyclical. They fluctuate between soft periods – when coverage is plentiful and rates hold steady or decrease – and hard periods, when premiums jump, and underwriting becomes more rigid. In recent years, the property and casualty insurance market has endured a persistent hard-market cycle.

An industry figure interviewed by *Insurance Journal* recently reported that past downswings were driven by significant single-loss events such as 9/11 and Hurricane Katrina. The ongoing hard market, however, seems to be lingering due to a combination of factors that continue to pressure underwriting results. These include social inflation and funded litigation efforts, overall higher costs of claims, economic inflationary trends and lower investment earning potential for insurance companies.

During this time, while admitted markets have trimmed unprofitable and unstable offerings, a record-high number of direct premiums has been written for the counter-cyclical U.S. surplus lines segment. Why is this the case? Because as underwriters and prices for admitted markets become more conservative, more business becomes available to the excess and surplus market.

Case in point:

An AM Best report released in September¹ shared that total U.S. surplus lines direct premiums written reached \$82.6 billion in 2021, with momentum continuing through mid-year 2022. That report also noted that the surplus lines insurers' market share of total P/C DPW has more than doubled during the last two decades. That share percentage grew to 10.1% at the end of 2021 – up from 4.3% in 2001.



AM Best also reported that surplus lines insurers' share of the commercial lines' DPW grew from 8.3% at the end of 2001 to 20.4% at the end of 2021. And E&S growth could continue in a big way: According to Allied Market Research, the global specialty insurance market size is projected to reach about \$179 billion by 2030, growing at a compound annual growth rate of 9.3%.

¹Market Segment Report: Record-High Direct Premiums Written for the US Surplus Lines Segment in 2021, A.M. Best Company, Inc., September 6, 2022.



Agents Needed in the E&S Sphere

So, what's the takeaway here?

In late 2021, David Wilson, vice president of Specialty Markets for Smart Choice, wrote that agents need E&S markets now more than ever. Due to ongoing hard market conditions, insurance agents must work harder to find coverage that meets their clients' needs.

These needs have led to the exploration of excess and surplus markets — and driven growth in that burgeoning arena. Wilson encouraged agents having trouble securing coverages for their clients to have plenty of markets in the E&S sphere readily available for market access. Because while many insurance lines have struggled, E&S and specialty lines are stepping up to the plate.

It's important to note that as captive agents lose policies due to tightening guidelines, independent agents are at an advantage because they have the freedom to seek out additional markets with no restrictions. While going independent can be intimidating, independent agents can partner with agency networks that yield stellar benefits.

Wilson explained that programs have launched in recent years that provide agents access to a range of E&S and specialty lines carriers and wholesalers. They offer coverages through multiple markets for hard-to-place risks, including hospitality, property, home, automotive, as well as artisan and specialty classes. They also make it easier for agents to use online search platforms to find immediate coverage when a need arises.

Smart Choice Express Markets™, for example, offers independent insurance agencies access to a broad portfolio of excess and surplus carriers, as well as an online solution and personalized resources for finding and securing these markets quickly, when needed. Insurance agencies do not pay any fees to participate in Express Markets™ and a full 100% commission is paid directly to their agencies by carriers. Through the Express Markets™ program, clients have access to more than 35 specialty lines insurance markets, and in some cases, higher negotiated commissions than they would be able to secure when accessing these markets on their own.

A Saving Grace

Sure, business is booming in the E&S realm.

But more importantly, those markets are offering protection to clients who may not receive it otherwise. Those markets are protecting businesses, families and communities who may have nowhere else to turn. They're enabling real people to live their lives with a sense of security. And they're allowing policyholders to focus on what's truly important to them.

E&S and specialty carriers are a saving grace for many. By filling in the gaps, you can help them, too.

Success Stories

We highlight four agency owners below who are successfully navigating the current market and securing coverage for their clients across the board.



Diversify And Protect



So, us partnering with Smart Choice really saved our agency. Without that partnership we would have never made it.

—Chris Workman, owner of
Workman Insurance Group in Louisiana

In 2016, after working his way up for 14 years in a local agency in Bogalusa, Louisiana, Chris Workman went out on his own. Six years later, his agency has grown to over \$8 million!

Not long after starting up the new agency, Chris signed up with Smart Choice. "It was just a no-brainer for a new agency to join up with Smart Choice. Because even though I had been in the business for a long time and made a lot of contacts, the strength in numbers that came with Smart Choice gave me a huge advantage in getting started."

Currently, Chris's business is split about 50/50, commercial lines/personal lines.

"So, us partnering with Smart Choice really saved our agency. Without that partnership we would have never made it. We would have been relegated to one carrier to write homes with."

He goes on to explain, "Because some of these homes in the area are older. They're good homes, but they don't really fit these standard markets. Being able to access these carriers through Smart Choice has given us an advantage over a lot of agencies in this area. Ironically, we've gotten calls from other agents asking if we'd be willing to broker business for them, because they just don't have any carriers."

Not only did having his Smart Choice partnership save his business – it allowed him to GROW his business as Chris was able to pick up business from neighboring agencies that couldn't write the policies.

"Whoever has the most markets is going to win these battles. That's where we've positioned ourselves," Chris explains.

In the current market, Chris has seen such dramatic swings in premiums. But through the Express Markets program, he's been able to secure quotes for his clients with good coverage at reasonable and affordable rates. So, as Chris puts it, "these folks have been able to continue to pay their mortgages! I know this sounds crazy, but some of these people saw their premiums go from \$2,000 a year, in some cases to \$6,000 or \$7,000 a year for their homeowner's policy. These are real live people that come into our agency and they're really struggling."

Through his Smart Choice Express Markets alliance, Chris has become a leader in the area and been able to aid hundreds of customers who were looking for a place to land after their prior agencies had lost markets.

"There's an agency up the road – a good friend of ours – they lost all their markets. They had over a hundred policies with one carrier. That carrier went into liquidation, and they didn't have any place to put them. They sent them all to us, and we were able to find a place for those people. We are very grateful to have been able to help those individuals."

"There's a huge reset button that's being pushed right now in the insurance market," Chris explains. "Whether it's Louisiana, Florida, California – with the wildfires – every region has some sort of problem. I'm just grateful that we have this partnership with Smart Choice, because I can tell you, had we not, I don't know if we would have survived."

Local Knowledge And Personal Service



I knew I had to partner with a group to get where I wanted to go and accomplish what I wanted to accomplish.

—Kim Winningham, independent agent
and owner of the Altamaha Agency in Georgia

Kim Winningham recently celebrated her two-year anniversary as an independent agent after 12 years as an exclusive for Allstate. She lives in a very small community in Georgia of about 30,000 people, yet she's seeing more P&C and commercial business coming through the door.

When Kim went independent, she knew she needed a certain book of business to get certain carriers. So, right from the start she went with Smart Choice as her network partner.

"I knew I had to partner with a group to get where I wanted to go and accomplish what I wanted to accomplish. As a new agent stepping out on my own, I started from scratch. I did research, just like everyone else. Smart Choice was the best way for me. I was very scared at first, but then you get this wonderful support team to help you get moving. My local field service leaders were very helpful in me getting started and my growth has exceeded my expectations. They've helped me get a lot of appointments with a lot of carriers."

We asked Kim how the Express Markets program with Smart Choice has helped her retain clients.

For her, it's really about availability. Express Markets has what fits into her customers' niches. Kim's customers run the gamut in her small town – refurbishing and renting homes, mobile mechanics, nail salons, and bounce house operators, are just a few examples of the wide variety of business she's written through Express Markets. "I call my local field rep and ask, 'Where can I get this?' They're like my secret search tool," she says, proving there's nothing like local knowledge and personal service to help agents help their clients.

Access To E&S Is Proving Crucial



We offer everything to everybody, and in South Carolina, that seems to be how we can build strong relationships.

—Kyle McMackin, owner of
Main Street Insurance in South Carolina

Kyle McMackin, an insurance industry veteran of over 20 years now, was a captive agent for 10 years, before going independent. His full-service firm serving upstate South Carolina offers health insurance, Medicare, retirement planning, and P&C.

Relationships matter. "We offer everything to everybody, and in South Carolina, that seems to be how we can build strong relationships. If we had only a monoline business with them, that's not solid. We don't want 5,000 clients, we want 500 that love us, and we love them."

In 2017, when Kyle added P&C, he joined up with Express Markets from Smart Choice right from the start. "One of my best friends has an environmental company. So, of course, no standard carrier is going to touch that," Kyle recounted. "Greenville is growing so much, so the construction around here is booming! Those risks come up weekly." Kyle now has just as much business from the E&S side as he does the standard side.

"I think a lot of people in our area turned down the E&S business, and that's where we've picked some up." A year ago, these businesses would've been covered by the four standard companies. E&S had typically been to cover risk outside the norm, now sometimes, it's the only option.

Kyle's seeing many contractors going out on their own needing coverage – renovation, new construction, commercial and residential. "We have a lot of construction going on and we live in a subcontracted world. So, everybody subs 100% or at least north of 60 now. And E&S is the only option. A lot of the standard carriers are fewer or above 50% of subcontracted work. They won't even consider it."

In Kyle's area of the country, another niche is suppliers for big car manufacturers. Kyle explains, "They build one part, like the gear shift for the BMWs. And no standard carrier is going to take that because they look at it as auto production, even though it's just one part." That can make finding coverage a challenge.

Furthermore, in the current market agencies are not only experiencing rate increases, but company and carrier insolvency. We asked Kyle how he was handling this and how Express Markets has helped him in serving his clients.

"We're having a tough time in South Carolina with the monoline homeowners' policies. We're having to move a lot of those, and the markets aren't expanding. So, there's nowhere to go but E&S."

Having access to E&S is crucial. "We have something to come to the table with and match the coverages that the homeowners have. And that's the biggest thing, especially with our coastal properties and second homes. The E&S allows us to do that where the standard market is extinct."

With his Express Markets team, Kyle explains, he can just call and say, "Listen, will it be a go in the standard market? And immediately with their knowledge, they're allowing us to cut out a lot of time and energy going straight to the E&S market. So having those contacts are huge."

Getting The Support You Need



From what I've seen, especially with the hard market that we're facing now, the E&S market is going to continue to grow.

—Todd Henderson, owner of
Carriage Hill Insurance and Risk Management in Tennessee

Todd Henderson has been in the insurance industry for 28 years, spending the majority of his career as a dedicated agent with two of the largest carriers in Tennessee before going independent just a few years ago. "I wish I'd made the move into the independent world a whole lot earlier than I did!" he says.

We asked him to tell us what he likes about being independent versus a dedicated agent?

"I love being an independent. It was frustrating on the captive side. You spend a lot of money and time developing relationships, and deepening relationships with a lot of people, and then you only have one company to win that business. When that one company took rate, it was hard to defend that for the price difference. Over time, I started losing some people."

So, how's business now? "So, now I've got a great company lineup. Now our closing rate ratio is about seven out of ten, to where in the past it was probably two out of ten." Todd tells us his agency has seen remarkable growth in the last 3-4 years.

Todd estimates his E&S business has exploded to well over 30-35% over the past 24 months.

"We use the E&S markets a lot. We know our core carriers and our E&S partners on a first name basis, because we're talking to them every day now. From what I've seen, especially with the hard market that we're facing now, the E&S market is going to continue to grow."

Todd shared that he's seeing the underwriting in the E&S markets improve greatly. "I think the E&S market is putting the resources within themselves to be available to agencies like us to get a full snapshot of what we're trying to write."

Being a Smart Choice Express Market partner, we asked Todd about his experience with the program. "Well, Express Markets bails us out every day. If there's something hard to insure, I have a couple of agents who always find it. That's a credit to our agency force here. We have a lot of young agents who are very motivated, and I tell them, when you create your own luck, you stumble into things."

"We tend to run across situations that are out of the norm, which creates a lot more opportunity in E&S for us. Our Smart Choice state director Tony Davis, and the rest of the team have become an extension of our agency. I'm not going to go as far as to call them employees, but they are very engaged in our agency. And we've got a young agency team here, and the fact that they can just pick up the phone and call one of our Smart Choice reps – and they respond, is above and beyond service anywhere else. They have made our life a whole lot easier and just not placing the business, but the teaching and awareness of where to go with the business. We're just thankful for that."

Conclusion

The hallmarks of a hardening market are in place – conservative and tight application of underwriting guidelines, coverage restrictions, and raising rates. The road ahead may prove to be long and challenging. Inflation is expected to continue into the next calendar year. Market corrections and rate increases will continue to pressure everyone – including insurers. As long as the hard industry market persists, the excess and surplus lines market share will continue to rise. In other words: The need for non-traditional markets is here to stay.

As discussed in this paper, for agents to survive, they must have access to a broad range of markets outside of the standard. They must be able to offer clients affordable solutions when standard carriers experience sizeable rate increases. And agents must have access to dedicated and knowledgeable human resources and agency networks to help them secure coverage.

Standard carriers will be forced to cut back on appointments – and even rescind existing appointments, if the agent can't keep profitable books. A good relationship with an agency network will ensure a team is working on your behalf to keep this from happening. The time to find one is right now. Doing so ensures you will be able to offer protection to clients who may not receive it otherwise.



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