

NCOIL 2022 Annual Meeting,  
November 18, 2022



# Excess and Surplus Lines

John Meetz



# Public policy

State Legislatures established public policy to facilitate the excess and surplus lines (E&S) market.

E&S market covers high capacity, distressed, unique or emerging risks when the admitted or standard market is unable or unwilling to do so.



# Surplus lines risks



**HIGH-RISK  
PROPERTY**



**TERRORISM and  
POLITICAL RISK**



**SPECIAL EVENTS and  
FESTIVALS**



# Surplus lines risks



**MEDICAL  
RESEARCH**



**PRODUCT RECALLS**



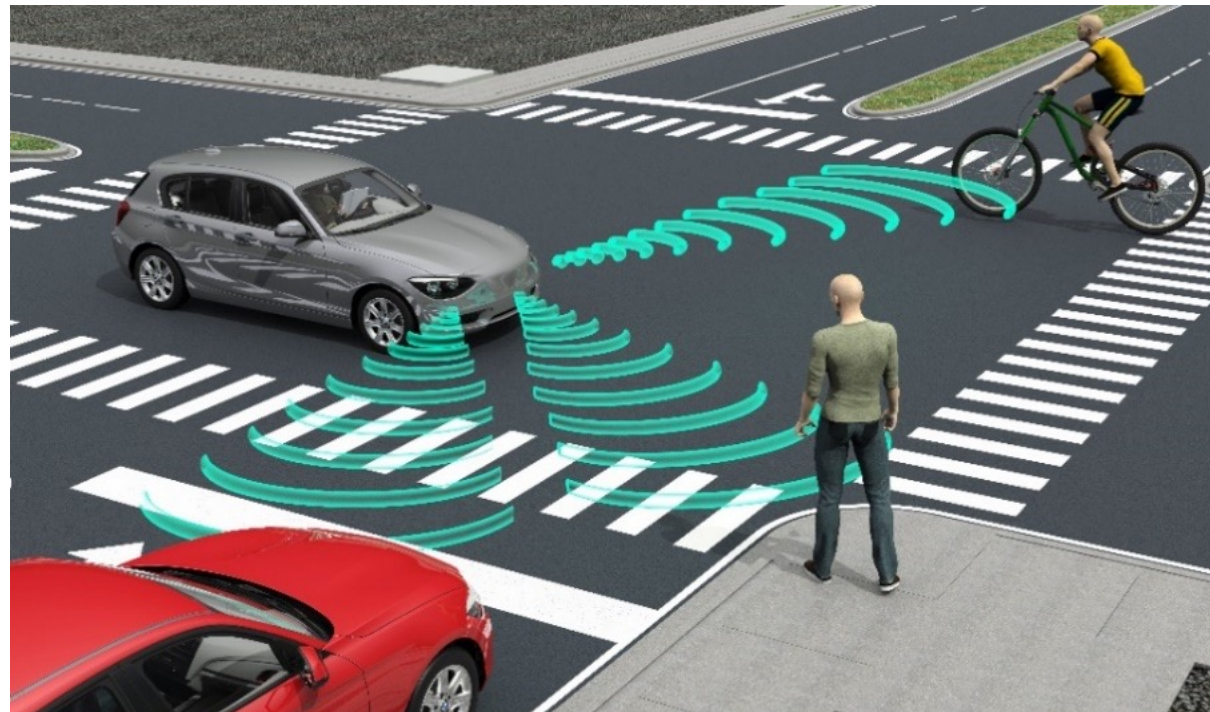
**POLLUTION  
CLEANUP**



Surplus  
lines  
risks



CANNABIS  
INDUSTRY



AUTONOMOUS  
VEHICLES

# Licensing and regulation

The E&S market IS regulated.

Surplus lines **brokers** are licensed and responsible for:

- placing coverage with a financially sound insurer,
- reporting the transaction to “home state”,
- collecting and remitting premium tax and
- assuring each transaction is in compliance with all applicable state laws.



# Freedom of rate and form

Lawmakers established public policy providing freedom of rate and form.

Allows E&S market to step in when the admitted market is unable.

If you've seen one E&S insurance policy...you've seen one E&S insurance policy.

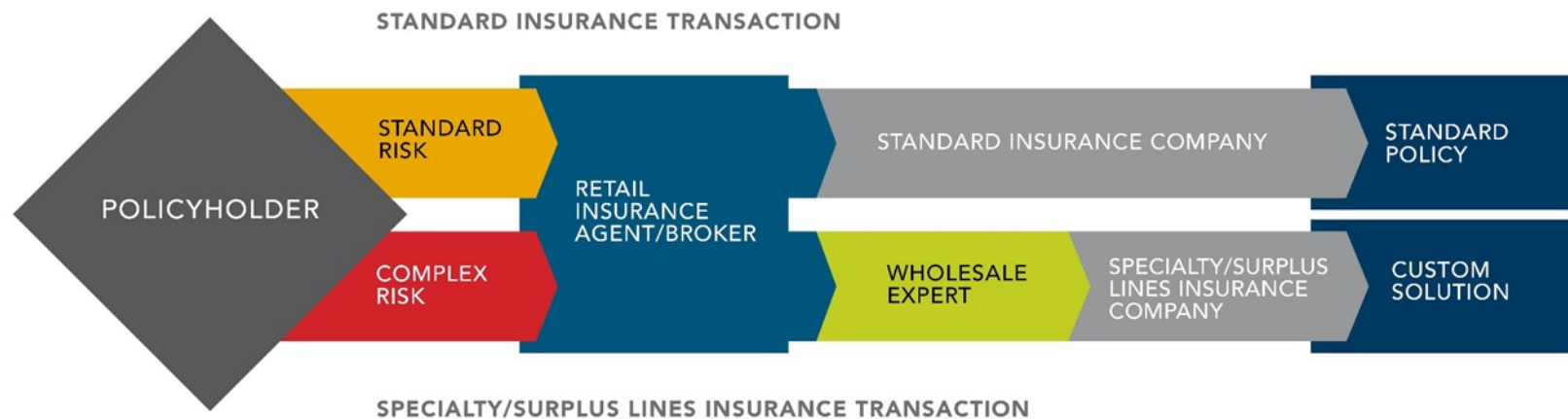




# "Safety valve"

E&S is often referred to as the "safety valve" of the insurance industry.

Process is typically verified through, "diligent search."



# The Nonadmitted and Reinsurance Reform Act (NRRA)

## **PART I—NONADMITTED INSURANCE**

### **SEC. 521. REPORTING, PAYMENT, AND ALLOCATION OF PREMIUM TAXES.**

(a) HOME STATE'S EXCLUSIVE AUTHORITY.—No State other than the home State of an insured may require any premium tax payment for nonadmitted insurance.

WSIA wholeheartedly supports state regulation, but there are inherent struggles when dealing with 50 state regulation.

NRRA established single state authority for taxation and regulation of each insurance transaction.



# NAIC Nonadmitted Insurance Model Act (Model #870)

The NAIC Surplus Lines Task Force appointed a drafting group to update Model 870 in accordance with the NARA (last update 2002).

While the model required significant changes, mostly to correspond with the “home state” approach and other uniformity provisions.

Most states already undertook modernizations since the passage of the NARA in 2010. Certain states may have additional opportunities for modernization.





# Questions?

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**NATIONAL COUNCIL OF INSURANCE LEGISLATORS**  
Sound Public Policy In 50 States For 50-Plus Years

# The Place to go when admitted insurers say no – The E&S Market

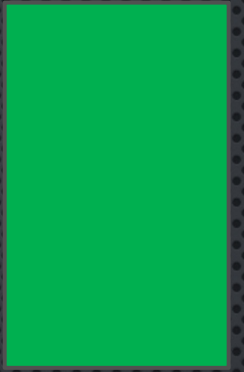
**Howard Greene**

Director of Government Affairs & Strategic Initiatives  
Excess Line Association of New York






# E&S MARKET METRICS



- ▶ The E&S policy count is very small in comparison to the admitted market.
- ▶ The E&S market is dominated by higher risk insureds and unique coverage needs.





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- ▶ An independent study by NovaStance Analytics analyzed the New York homeowners market.
  - ▶ 20,000 E&S homeowner policies were issued in 2017 out of 2.86MM residences.





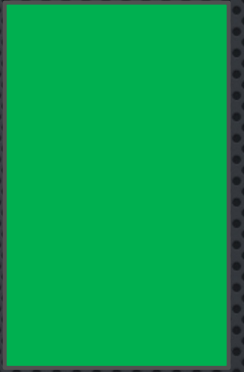
▶ Two factors drive homeowners risks to the E&S market:

- Increased wind exposure in coastal areas
- High valued homes

▶ E&S homeowners policies are concentrated on Long Island > 60%.

▶ Most are within 1,000 feet of the coastline.

▶ Almost 80% of E&S premium insured high valued homes.






## A Short History of New York E&S

### \*HOMEOWNERS RISKS\*

	<b>Total HO Policies</b>	<b>Total Policies in Long Beach</b>
2012 (Superstorm Sandy)	17,709	989
2016 (Peak Year for E&S/HO)	22,165	996
2021	17,418	419





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- ▶ Superstorm Sandy devastated Long Beach, LI in 2012.
  - ▶ Subsequently homes there were raised, razed and or rebuilt.
  - ▶ Wind and Flood risk mitigation designs were used.
  - ▶ Many Long Beach homes returned to admitted insurers.





# DISTRIBUTION SYSTEM

In 2021, New York E&S business was placed as follows:

<b>Brokers</b>	<b>Transactions*</b>	<b>Market Share (T)</b>	<b>Premiums (\$)</b>	<b>Market Share (P)</b>
Retail	61,170	17%	\$2.559B	41.2%
Wholesale	294,198	83%	\$3.646B	58.7%

\*Includes endorsements





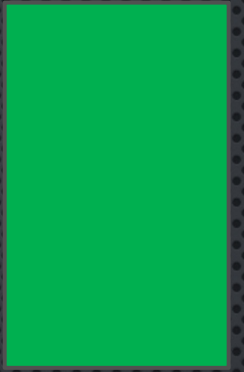
- ▶ Large retail brokers need E&S insurance for capacity risks.

EXAMPLE: To insure a \$700MM skyscraper, 14 insurers each insure \$50MM.





- ▶ Wholesale brokers exist to serve retail brokers with difficult accounts.
- ▶ In 2021, 8,162 retail brokers utilized wholesale brokers.
- ▶ 5,736, or 70% of these retailers, placed less than 10 policies through wholesalers in 2021.





Market growth is often found in new emerging product categories:

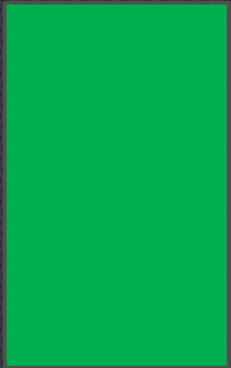
## Cyber Liability

	Policy Count	Total Premium (\$)
2016 *	3,649	40,773,203
2022 (through September)	11,851	249,513,960

\*1st full year of reporting







- ▶ Certain products are consistently in the E&S market.
- ▶ Construction makes up the largest single component of the New York E&S market.

### Construction YTD Through June, 2022

Total Transactions	31,368	17% of total New York E&S market
Total Premium	\$726,332,668	Approximately 20% of New York E&S premium





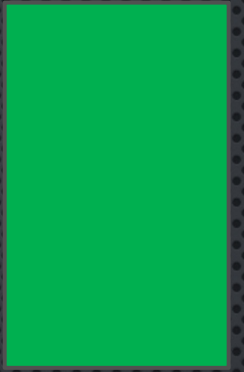


- ▶ E&S insurance is almost 100% property and casualty.
- ▶ < 1% NY E&S risks are disability/A&H.





- ▶ The New York E&S market serves the need for which it was created.
- ▶ It insures risks which licensed insurers choose not to write.
- ▶ Small size of E&S market + nature of risks proves this conclusion.





# Future Expectations and Aspirations

- ▶ E&S will continue serving hard to insure populations.
- ▶ The market will be viewed through the prism of granular data.
- ▶ Regulatory uniformity will reduce costs and benefit insureds.
- ▶ Public policy should maintain focus on E&S – admitted market regulatory differentiation.





# Questions?

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