Soft market sends E&S Underwriters back into the field

The E&S marketplace has had a heady run in the last decade, growing to nearly $38.7 billion in premium in 2006 from $9.2 billion in 1996, according to A.M. Best. Over the same period, its share of the commercial-lines market rose to 14.37% from 6.31%. Now, however, the marketplace seems poised for a breather—or maybe even a contraction.

To assess the state of the E&S marketplace at the start of 2008, we recently contacted a half-dozen managing general agents and surplus-lines brokers, as well as a couple of E&S insurers. All reported rapidly softening conditions that are forcing the E&S marketplace back into its traditional role as an insurer of volatile risks, niche business or standard accounts with adverse loss histories.

One thing that all of the intermediaries contacted for this special report agree on is that they cannot wait for business to come to them. All are ramping up their efforts to get in front of retail insurance agents and brokers, so prepare to be wooed.

John Klag
Westrope
Kansas City, Mo.

John Klag, executive vice president and COO of Westrope, said he expects 2008 to resemble 2007—and pretty much every other year of the specialty wholesale broker's 16-year existence, for that matter. "All but a handful of our years have been in a soft market," he said. "This is nothing unusual to us."

The marketplace is extremely competitive, "literally across all classes of business," Klag said. Carriers' top lines may be down, and thus little growth is expected for the coming year, yet profitability remains high. Meanwhile, E&S brokers are "really fighting hard" for new-business opportunities, since standard markets are swooping back in to reclaim former business, Klag said.

Westrope has specialties in health-care, transportation, executive and professional, construction, workers' comp and agribusiness lines. It also does a "significant" amount of property-cat business, which may become a comparative island of stability in a churning sea. Property-cat business has dropped by as much as 30% over the last couple of years, Klag said, but now he thinks a "line in the sand" has been drawn. There will still be some pricing pressure, but "not at the same level as you'll see in some other lines." Another light hurricane season, however, could bring further reductions, he said.

Approximately 60% of Westrope's business is non-admitted, a ratio Klag expects to maintain in 2008. In response to standard-market competition, he said some E&S carriers are trying to modestly increase the business written by their admitted affiliates, "especially on the umbrella side."

Klag said he's seen a few new E&S carriers enter the market in the past couple of years, but the big influx of capital that followed Katrina is a thing of the past. "Quite honestly, we have an abundance of capital in this market right now," he said.

Klag said Westrope will respond to the changing market by maintaining its specialties in certain fields, providing service and searching for "those retailers that really value what a wholesaler brings to the table." Despite the increased competition from standard markets, he said Westrope will continue to put new brokers out on the street as they complete a regimen of three or four years of training. "It's a long-term strategy for us," he said. "Westrope continues to see opportunity in the Southeast, Texas and certainly on the West Coast, which are the classic E&S bastions."

(George F. Williams, CPCU, "Soft market sends E&S underwriters back in the field," <u>American Agent & Broker</u> 28 Feb. 2008)