

Wholesaler Innovation Helps Close the Gaps

E&S Exists to Provide Coverage for Unique and Emerging Risks



Wesson

By Mac Wesson

Before the 1980s, employers bore all the risks associated with employment litigation. As this litigation and the financial costs associated with employee claims against employers increased, employers began investigating the possibility of insuring this risk. Their insurance agents and brokers knew where to turn — the excess and surplus lines (E&S) market.

Free from rate and form restrictions, the E&S market used creativity and innovation to provide what would become employer practices liability insurance (EPLI) coverage. Initially written just to cover legal defense costs incurred by employers, EPLI incubated for several years in the E&S market until underwriting data was available and there was some predictability in these risks. Coverage gradually broadened and eventually the admitted markets began offering what is now a standard professional liability coverage.

EPLI never would have developed if it had not started in the E&S market. This is a familiar story when there are unique coverages, emerging risks or other gaps in coverage and availability. The E&S market finds a way to insure the risk and over time enough underwriting and claims data is available so that the standard markets take it on.

When faced with such a unique coverage or emerging risk, where should retail agents and brokers turn? Sometimes an agent will come to us with an idea to write a program, telling us they think they can make inroads if we can write a specific type of coverage. Even if they have some creative ideas of their own, most agents know that standard carriers are unlikely to entertain them. Most know that wholesale brokers and E&S carriers are in a unique position to help them.

Wholesale brokers exist to help agents and

brokers. Wholesalers have specialized knowledge that brings the full breadth or scope of a particular coverage. Wholesalers have access to many markets that only deal with wholesalers and not directly with retailers. And wholesalers are fast. They usually are called upon to do work where there is little time left.

Wholesale brokers exist to help agents and brokers.

Wholesalers have specialized knowledge that brings the full breadth or scope of a particular coverage.

That is a powerful skill set and one that helps wholesale brokers find unique solutions to emerging risks.

A recent example is a coverage that my company helped develop — medical tourism. More and more U.S. residents are traveling overseas for medical procedures that can save them as much as 90 percent over the cost of the same procedure done at home. But when

these patients return home and there is a complication with the surgery or it was ineffective, they are faced with potentially high travel costs to return to the country where the surgery was performed.

When agents began talking with us about the need for this new type of coverage, we used our specialized knowledge in health care to develop a comprehensive travel policy with a medical complications policy. If a medical complication develops, coverage pays for the medical treatments required to treat the complication.

Wholesalers are problem solvers, whether it's for an emerging risk like employer liability and medical tourism or if the admitted markets withdraw from a market. As we may see with certain lines in 2009, the admitted markets will withdraw from a coverage or industry when claims and litigation go beyond their comfort level.

For example, nursing home liability was commonly written in the admitted market, but in 2000 a spate of litigation and claims rendered the profitability disastrous, so the market reacted by withdrawing from nursing

home coverage, leaving little if any capacity. The E&S market responded quickly by coming up with new forms and rates. As a result, capacity was reintroduced into the market and agents and brokers were able to place their nursing home business.

It's important that agents and brokers remember that most of the business in the E&S world is there for a reason. It's usually a unique coverage that requires specialization beyond what they have. Retailers often require specialized assistance when approaching certain risks and wholesale brokers can often provide it. Partnering with one or several wholesalers can really benefit the retail agents or broker.

From EPLI and D&O to biotechnology and niche technology risks, many coverages



exist today because of the role that wholesalers play in constructing a policy where there was previously a gap. Agents and brokers should take advantage of this expertise. ■

Wesson is president of U.S. Risk Insurance Group Inc., a specialty lines underwriting manager and wholesale broker headquartered in Dallas. Web site: www.usrisk.com.