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Wholesale brokers: Ready, willing and able

It is during these difficult periods that wholesale brokers are at their best performances. Their industry expertise and broad knowledge can be invaluable.

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Everyone I know in the insurance business has experienced their fair shares of pain during our country's financial crisis and our industry's continued soft pricing. When I saw the first quarter financial results for the property-casualty insurance market, I saw numbers that illustrated the pounding that our industry has taken this year.

According to the June 29 ISO and PCI report, property-casualty insurers suffered the worst first-quarter result on record, a $1.3 billion net loss after taxes, as well as $16.4 billion in unrealized capital losses on investments. The net loss is a $9.8 billion drop from the same period last year, resulting from a combination of $2.5 billion in net losses in underwriting and a decline in the industry's net investment income. There was weakness in premiums and increases in loss and loss adjustment expenses.

It was heartening to see surplus levels and key leverage ratios indicate the industry remains well capitalized, but the unprecedented economic crisis, resulting decline in demand for commercial insurance products and services, and continuing soft pricing have combined to make 2009 a tough road.

However, looking ahead, there are some positive signs and encouraging developments, especially when you look at the E&S lines industry. First, as the economy improves and the soft market cycle ends, E&S is strong and well positioned to meet the specialty lines needs of agents and brokers. Second, new legislation should make it easier than ever to place specialty lines coverage through the surplus lines market. Third, retail agents and brokers can access wholesale brokers who can help them navigate market changes and find the solutions they need.

Streamlining state regulation

First let's look at the significance of new legislation. The most important is the Nonadmitted and Reinsurance Reform Act of 2009 (NRRA), which is under review by the U.S. House and Senate. NRRA will have a big impact on how insurance is written by creating a uniform regulatory system for the surplus lines industry while preserving the role of the state regulator.

Over the past five years, NAPSLO has been working on Capitol Hill to promote NRRA and make sure the changes benefit agents and insureds. Aimed at streamlining and reducing barriers in state regulation of surplus lines insurance and reinsurance, the bill was introduced by Sen. Evan Bayh (D-Ind.) and Sen. Mel Martinez (R-Fla.), and co-sponsored by Sen. Bill Nelson (D-Fla.) and Sen. Mike Crapo (R-Idaho).

The NRRA bill simplifies the tax remittance and compliance responsibilities for wholesale brokers and brings efficiency and cost reduction to regulatory compliance when brokers are placing coverage with multi-state exposures. Such reform would benefit not only the wholesale brokers and underwriters who provide surplus lines insurance but also insureds who ultimately pay the price for inefficiencies.

Wholesale brokers already are doing an excellent job of delivering specialty lines coverage, but this bill would eliminate some of the compliance issues that arise from lack of uniformity of state regulations. It would make property-casualty insurance more readily available and improve the efficiency of the surplus lines insurance market.

With financial services reform taking center stage on Capitol Hill, the NRRA bill has an excellent opportunity of being included and passed as part of a larger reform measure. The House passed similar versions of the bill in the last two sessions of Congress and the Senate took up a similar bill in 2007. But it took no action prior to the end of the 110th Congress, requiring that the bill be reintroduced in the 111th Congress.

In addition to congressional action, insurance regulatory reforms are also under review by the White House. In early June, NAPSLO was among a select group of insurance trade associations attending a listening discussion with White House officials on regulation of the financial industry. Following the meeting, the Treasury Dept. issued a proposal that was consistent with the outline of regulatory reform NAPSLO had presented in June.

Adding enhancements to state regulation offers insureds better protections and stronger regulation, and that's why we are encouraged that the Treasury Dept. proposal incorporates the continuation of state insurance regulation.

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When enacted, the NRRA would work well with the Treasury Dept.'s proposals, benefiting the industry and consumers.

Capacity to meet specialty lines needs
If an economic recovery occurs and the market cycle begins to shift as expected later this year or in early 2010, the NRRA legislation would be perfectly timed to help retail agents and brokers place specialty lines coverage through the surplus lines market.

Of course, the timing of the recovery and hard market are difficult to estimate. The severity of this recession has masked the hard market that most of us expected by now, and we may see a more gradual hardening than we have in recent cycles. A recent NAPSLO survey of its members confirmed these trends, with most of the wholesale brokers and surplus lines carriers surveyed saying that they did not see a decline in capacity or a tightening of terms along most specialty lines.

The rise in unemployment and business closings nationwide have had a ripple effect on demand for commercial insurance products and services. When an auto plant closes, it's not just the workers at that plant who are affected. It's also the ancillary industries that serve the auto industry that suffer. The same is true of the construction and other industries that saw demand plummet this year. In addition, with the tightening of credit markets, entrepreneurs and small business owners are finding it more difficult to start and expand businesses.

What agents and brokers need to think about now is how they will handle the rebound when that begins. When credit loosens and consumer confidence rises, businesses will begin taking risks again, new businesses will launch and existing business will expand—all creating specialty lines risks that need coverage. Since the standard markets often do not have the appetite for new, emerging or difficult risks, agents and brokers need to look to the E&S market or risk losing potential new revenue streams.

Remember, it is times like this when the E&S industry shines, when surplus lines carriers offer much needed capacity and wholesale brokers can help agents and brokers find these markets with the terms and pricing that meet their insured's needs. History has shown that in hard or soft markets, wholesalers and surplus lines carriers emerge strong and solvent, and in recent years, the E&S industry has outperformed the standard markets.

Using wholesale broker expertise
It is during these difficult periods and market shifts that wholesale brokers are at their best. Their broad perspectives and knowledge and specific industry expertise can be invaluable during times of economic uncertainty, helping agents find specific specialty markets, solve problems and place new and difficult risks.

There's a reason why the most experienced agents and brokers turn to wholesale brokers—they know this is a fast track to success. By seeing a critical mass of business in niche areas, wholesalers have real-time market knowledge on capacity, pricing, risk appetites, terms and program design. They find better solutions for insureds, and quick and easy access to the markets needed.

Wholesalers provide a more efficient way to get access to specialty lines markets: cutting time to find markets, avoiding calls to multiple carriers, offering access to multiple markets and offering extensive knowledge of who writes specific risks. These are 'A' rated markets that include U.S. specialty lines carriers, Lloyd's of London and Bermuda markets.

Agents and brokers should ensure now that they have relationships with wholesalers who can meet their needs. Often by the time an agent calls a wholesaler, they already have exhausted their routine options, and they need to meet their customer's needs quickly and proficiently. We all know this is a relationship business and wholesalers should be part of the equation.

Over the long term, solid relationships with wholesalers can prove to enhance an agent's revenue stream and provide a solution for the customer's insurance puzzle. When the market hardens and capacity tightens, agents and brokers must be ready to move new and existing insureds into new markets. This is an important way to build and retain business. And if the current NRRA legislation passes as expected, this process will be easier than ever.

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