TODAY'S PROPERTY INSURANCE MARKET AND SURPLUS LINES SOLUTIONS

At ISRI2019, I heard about the difficulty recyclers are facing when renewing their property insurance. Over the last several years, nontraditional capital has entered that marketplace, creating excess capacity and driving down prices. Then property insurance companies experienced several very large losses due to natural and manmade disasters. As insurers seek to improve their results, their appetite for risk changes. With these industry dynamics, plus the apparent increased frequency of scrap facility fires, many insurers have exited the class, decreasing the supply of property insurance while the demand has remained stable or increased. The shift in the supply curve has created today's hard market conditions.

Your insurance agent might say he or she is having a hard time placing your property renewal, or perhaps your policy was not renewed by your prior carrier. Renewals will likely face higher rates, higher deductibles, and more restrictive policy terms and conditions. As agents exhaust standard or admitted market options, they might present you with a quote from a surplus lines carrier. It's important to understand what that means.

STATE-LEVEL DIFFERENCES

Each state regulates its insurance industry. Insurance carriers that meet all of a state's capital, operations, and compliance requirements—and that have applied to and been approved by the state—become part of the state's admitted or standard market. These carriers must file their insuring agreements or policy forms and their rates with the state, which reviews the filings and approves or rejects them. The state strictly holds the carriers to those forms and rates. If admitted carriers become insolvent, a state guarantee fund can reduce policyholder and creditor losses. These guarantees are limited, however—expect to get less than full value on any losses if you face that situation.

Surplus lines carriers are all the insurance carriers that operate in a state in which they are not admitted. Regulations require insurance agents and brokers to make a diligent effort to place clients with admitted markets. Typically, they must document their efforts to place you with at least three admitted carriers before they can place you with a surplus lines carrier, with exceptions for certain classes and coverages. Because surplus lines carriers don't have to file their policy forms or rates with the state, they have broad freedom to customize their insurance agreements and premiums. This makes them a solution for unique or high-hazard risks that admitted carriers are unwilling or unable to cover given their product and pricing constraints. Given the current loss results and the state of the market for scrap recycling property insurance, I expect more accounts will be forced to rely on surplus lines solutions.

RISKS AND BENEFITS

Surplus lines carriers are not necessarily a more risky solution for your insurance needs. Most states limit the payout from their guarantee funds to $300,000, and they may not pay the full value of a lesser claim—factors that limit the value of their backstop for admitted carriers. Whether a carrier is admitted or a surplus line is one factor to consider, but the carrier's financial strength and the breadth of coverage it's providing are more important. In many cases, large insurance groups will have both admitted and surplus lines companies under their corporate umbrella; those surplus lines carriers are likely reliable and trustworthy operations. AM Best evaluates insurance carriers for financial strength and size; ask your agent for details on carrier ratings. Surplus lines can be a very good option for your risk transfer needs, and in some cases, they might be your only option.

As you work toward your next insurance renewal, play offense rather than defense. Be prepared to tell your operation's story. Make sure your agent understands your operation, your fire risks, and your risk management controls, and make sure the agent is accurately presenting your risk and sharing your story with carriers when they go to market. Maintain a robust fire prevention plan for your sites and share it as part of your submission. Consider drafting a short narrative explaining all these dynamics to potential insurers. S

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