**Excess and surplus lines insurance**

Excess and surplus lines insurance is a segment of the insurance market that allows consumers to buy property and casualty insurance through the state regulated insurance market, where policyholders, agents, brokers and insurance companies all have the ability to design specific insurance coverages and negotiate pricing based on the risks to be secured. “Freedom of rate and form” has given the E&S market the ability to adapt quickly to changing market conditions and those of the consumers and commercial entities seeking this unique insurance protection.

Most AAMGA Wholesale Insurance members are entrusted to write both admitted and excess and surplus lines insurance by insurance companies who have delegated underwriting authority to them. They and other excess and surplus line insurance professionals may also be members of the National Association of Professional Surplus Line Offices (NAPSLO); www.napslo.org, which works in conjunction with the AAMGA on numerous matters of mutual interest to the respective organizations.

The E&S originated when those who needed insurance coverage were unable to secure it from the standard carriers (or admitted carriers) due to a variety of reasons (e.g., new entity or one that does not have a adequate loss history; one that has unique coverage requirements; or a loss record that does not fit the underwriting requirements of a standard carrier).

The E&S industry is comprised of a variety of insurance companies writing what is referred to as "main street" business. The general contractor, trucking company, restaurant, bar or hotel, entities with environmental, professional liability and employment related risks and other unique exposures, are the staples of the business. A few large organizations will write the oil refineries, aircraft liability, property coverage on a communications satellite, etc.

**What is an admitted carrier or standard lines carrier?**

An admitted carrier or standard carrier is an insurance company that has received a license from the state department of insurance for the authority to write specific lines of insurance. These companies are also bound by rate and form regulations, and are strictly regulated to protect policy holders from a variety of illegal and unethical practices, including fraud. Admitted carriers are also required to financially contribute to the state guarantee fund, which is used to pay for losses if an insurance carrier becomes insolvent or unable to pay the losses due to their policyholders.

**What is an excess and surplus (E&S) lines carrier and how is it different from an admitted carrier?**

An E&S carrier is not required to be licensed by the state, but is allowed to do business in that state. Sometimes, E&S carriers are also referred to as non-admitted or unlicensed carriers; however, E&S carriers are financially stable companies that are regulated in other ways.

Most states require that E&S carriers submit financial information, articles of incorporation, list of officers, and other general details. They also cannot write insurance that is typically available in the admitted market, they are not protected by the state guarantee fund, may pay higher taxes, may only write a policy if it has been rejected by three different admitted carriers, and only when the agent placing the business has a surplus lines license. AAMGA member State Surplus Line and Stamping Offices, as well as insurance departments in the states maintain a list of approved surplus lines insurance companies. Policies can only be written by companies on this approved list.

Excess and Surplus line carriers are not bound by most of the rate and form regulations imposed on standard market companies, allowing them the flexibility to change the coverage offered and the rate charged without time constraints and financial costs associated with the filing process. This is good for both the company and the policyholder.

**Why am I insured by an E&S company?**

Most likely, your policy is written by an E&S carrier because the standard carriers have elected not to cover your insurance needs. The reasons for this vary, but could include the following:

•The risk does not meet the guidelines of the standard market due to age, location, loss history or cancellation;

•The policy limits exceed the guidelines for the standard market;

•The risk is "outside the box" of what the standard carriers are comfortable writing. Sometimes, this is referred to as an "unusual risk", as there is just no other way to describe pet insurance, coverage for a hole-in-one event, protection for an amusement park, etc.;

•The risk is "extraordinary" and the standard carriers may not be comfortable covering such a risk. Usually these are very large exposures with equally high potential for loss such as aviation liability insurance, protection for a demolition business, etc.

**Why does the disclosure on my policy state that the policy is written by a non-licensed or non-admitted insurance carrier and what does that mean?**

When your policy is written by an Excess & Surplus line insurance carrier, a disclosure of that is required by law. What it means to the policyholder is that IF the carrier were to become insolvent, the policyholder is not eligible for recourse through the state guarantee fund. However, studies including those by the respected A.M. Best organization, which monitors and reports on insurance company solvencies and other important issues, show that the percentage of excess and surplus line carriers that become insolvent is lower than the percentage of admitted carriers that suffer the same fate. The key consideration is to do business with those insurance organizations that are financially strong and have the ability to pay claims when a covered loss occurs, whether the company is an E&S carrier or not.

**Is the E&S market regulated?**

As mentioned earlier, the E&S market is regulated in a different fashion than licensed or admitted companies. While the amount of direct regulation is less and the amount of free market competition is greater, specifically in the forms used and the rates charged, the E&S industry is still watched very closely. They also cannot write insurance that is typically available in the admitted market, they are not protected by the state guarantee fund, may pay higher taxes, may only write a policy if it has been rejected by 3 different admitted carriers, and the agent placing the business must have a surplus lines license. States also maintain a list of approved surplus lines companies, and policies can only be written by companies on the approved list.