

Beyond the Text Podcast

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TRANSCRIPT

New Challenges, New Solutions: Navigating Growth and Innovation in the E&S Market

Beyond the Text is a Conning podcast that features insights from its Insurance Research Department. Hosted by Alyssa Gittleman, a Director and Head of Consulting and Customer Operations for Conning Insurance Research. Alyssa will invite analysts and guests to provide insights on recent publications and emerging industry trends.

Beyond the Text is intended to provide just that: going beyond Conning's typical research. Conning's analysts have deep industry knowledge and come from various backgrounds providing a greater level of context on industry trends for insurance professionals.

[Opening Music]

[Alyssa Gittleman (AG)]

Hello and welcome to Beyond the Text, a Conning podcast featuring insights from our Insurance Research department. I'm your host, Alyssa Gittleman, a Director and Head of Consulting and Customer Operations here at Conning.

Join me as I welcome analysts and guests to provide insights on recent publications and emerging industry trends. Today, I am here with Lauryn Kothavale, a Vice President in our Insurance Research department and the author of our recently released excess and surplus (E&S) report titled: "New Challenges, New Solutions."

Thank you, Lauryn, for joining me here today.

[Lauryn Kothavale (LK)]

Thanks Alyssa, happy to be here with you.

[AG]

Today I wanted to dive into the findings of this report, which I do want to mention to you all is available for purchase on the Conning website.

Lauryn, we've seen some impressive growth in the E&S market over the past few years. Can you talk about what the driving factors behind this growth have been and maybe give us some overview of the current state of the market?

[LK] (1:13)

Sure. The E&S market has really been on this growth surge over the past five years. To give you some numbers,

premiums have grown at an impressive 21% compound rate from 2019 to 2023. This strong growth is expected to be reflected in the 2024 numbers as well.

What's interesting is that the period between 2020 to 2024 represents the longest duration in history where E&S premiums have exceeded the overall market.

And I would say several factors have contributed to this growth. First, we have the inflationary pressures on the loss costs; the cost of claims has been rising. Then there's the availability and cost of reinsurance, and the overall rates have also been increasing. These are largely cyclical factors that tend to ebb and flow with the market conditions.

But there is one overriding, noncyclical contributor to the growth, and that's the trend toward increasing specialization. Insurers are getting much better at tailoring their products to meet the specific needs of different market segments, which has been a huge driver of growth in the E&S market.

[AG] (2:32)

Great, thank you, that's interesting. As the admitted market tightens its underwriting, how has the E&S market stepped in to fill those gaps and maybe you could spend some time going into what the key areas of where E&S insurers have really capitalized on those opportunities for growth?

[LK] (2:35)

Sure, some key areas where E&S insurers have capitalized on opportunities for growth have been:

1. First off, Cyber: The increasing frequency and severity of cyberattacks have created significant demand for cyber insurance. Unlike the admitted market, E&S insurers excel at offering tailored policies that adapt quickly to evolving risks, free from regulatory constraints on forms and rates.
2. Property Insurance: The E&S market has stepped up to cover high-risk properties, like those in wildfire-prone California and hurricane-exposed Florida. With admitted insurers pulling back due to rising risks, delayed rate approvals, and concentrated exposures, E&S insurers have filled the gap by offering more flexible pricing and coverage. This flexibility has been critical for homeowners and businesses who might otherwise struggle to find coverage.
3. Another area is cannabis coverage: With cannabis now legal in 24 states and D.C., the demand for insurance in this sector is growing. Because cannabis is still federally classified as a Schedule I narcotic, admitted insurers face limitations, leaving E&S carriers to step in. As the industry evolves, so do the insurance needs for the cannabis companies and casualty to areas like cyber and D&O. E&S insurers are meeting these demands with the expertise and flexibility this market requires.
4. And lastly, the fronting market and MGAs: The fronting market has grown significantly, with 54% of fronting premiums coming from the E&S market. MGAs are increasingly creating tailored insurance solutions for these unique, nonstandard risks, and fronting insurers provide the necessary capacity to support these efforts. These partnerships between fronting insurers and MGAs is key to driving growth in the E&S market, as both seek to address gaps in capacity, fill coverage voids, and meet the needs of insureds requiring specialized insurance products.

By focusing on these key areas, the E&S market has successfully capitalized on opportunities left by the admitted market, demonstrating the ability to really adapt to these emerging risks and provide innovative solutions for complex insurance needs.

[AG] (5:27)

Great. I was wondering if you could spend some time talking about the new entrance in this space and how has the E&S market evolved with these newer entrants?

[LK]

The E&S market continues to attract attention due to its growth in recent years, outpacing the admitted market and offering greater growth potential. One of the key reasons for this is the regulatory environment, which provides a lot of flexibility. This allows insurers to craft policies that are tailored to the unique needs of their clients.

Also, the market's distribution channels—anchored by the MGAs, wholesalers, and brokers—play a key role in efficiently connecting insurers with specialized risks. Advances in technology, including artificial intelligence and advanced analytics, have supported the E&S market's ability to assess risks with greater precision and speed.

With all these factors in play, it's no surprise that the E&S market has attracted numerous new entrants. Since 2017, we've seen 20 new players enter the market. Many of these are existing insurers recognizing the need to really tap into this critical market and establishing subsidiaries to offer a full range of solutions for commercial insureds.

Only five of the new entrants have been standalone startups; this trend highlights the keen interest from investors in backing experienced management teams within this promising market.

[AG] (7:04)

Great. Now I'm just curious with these newer entrants, has there been an impact to the distribution of market share among this market?

[LK]

Yea, I would say surplus lines insurance marketplace has become more diversified. In 2023, the 10 largest groups held 45% share of the overall E&S market, down from 55% in 2018. Likewise, the top 25 groups accounted for 70% of the market in 2023, down from 82% in 2018. This really shows how the market is becoming more spread out, with a wider mix of players getting involved.

[AG] (7:47)

Great. Thank you. Now I was hoping we could shift gears a little bit and focus on what the key challenges and opportunities are facing the E&S market and what you expect for the near future.

[LK]

Sure. The E&S insurance market has really taken off mainly due to [it being] great at offering creative solutions for complex, hard-to-place risks. Looking ahead to 2025, there are a few big challenges and opportunities that are going to shape the sector.

Some challenges are the:

1. **Regulatory Landscape:** While the E&S market has typically had less regulation, there's a chance that this could change and there could be more scrutiny on the horizon. Regulators might step in to areas, particularly like personal insurance, where issues like capacity limits and affordability are sparking some concerns.
2. **Market Cycles and Profitability:** Like any part of the insurance world, the E&S market isn't immune to the ups and downs that come with success. It's been thriving in hard market conditions, but we're starting to see signs of softening, especially in property. These cycles are inevitable. The real challenge is figuring out how to stay profitable during the softer periods. For these E&S insurers, it's all about staying disciplined in underwriting and doubling down on what they do best—specializing in these niche markets.

Some Opportunities are:

1. **Continued Specialization and Customization:** Their growth is driven by increasing specialization and customization. Insurers are creating tailored products for specific risks that the admitted market often avoids. This trend is expected to continue, with E&S insurers using advanced analytics and technology to offer these more precise and responsive coverage solutions. The ability to quickly adapt to emerging risks will remain a key advantage for E&S insurers.
2. **Technological Advancements** is another area for opportunity: AI and data analytics will play a key role in the E&S market's growth. These tools will make risk assessment easier, speed up underwriting, and boost efficiency.
3. **Emerging Risks and New Markets:** The E&S market will expand into new areas as emerging risks create demand and specialized coverage.

I would just say this E&S market is set for continued growth and transformation. By embracing specialization, harnessing the power of technology, and staying committed to strong underwriting discipline, E&S insurers are well-equipped to tackle challenges and remain indispensable to the broader insurance landscape.

[AG] (10:55)

Thank you. And I'm looking forward to see what 2025 will bring for this market.

I think that's all the time we have today. Thank you so much, Lauryn, for joining me to talk about your E&S report, and thank you all for listening.

As a reminder, if you're interested in learning more about the trends in the E&S market, this report is available to purchase at [Conning.com](https://conning.com). And if you have any questions, please e-mail insuranceresearch@conning.com. We hope you will subscribe to this podcast and join us for our next episode as we stay up to date on industry trends.

Thank you.

[FADE TO MUSIC]

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