

EXCLUSIVE

# RSG premium volume up 35% in 2019 as E&S market booms

Ryan Specialty Group added more than 500 new employees in 2019 to keep pace with the surge of business coming into the E&S market that sent its premium volume rocketing by 35 percent to \$9.6bn, *The Insurer* can reveal.



Tim Turner, CEO of RSG's wholesale platform RT Specialty, told this publication that the current marketplace was the firmest he had seen in his 33-year career.

"It's not so much like '85-'86 when there was a capacity shortage. This time it is driven by unprecedented volume coming into the E&S market," he said.

And he suggested that in the first few weeks of 2020 "it's getting tougher".

"There are an increasing amount of non-renewal notices, and in many cases the retail broker cannot find the right solution for their client. They therefore send us the submissions looking for solutions and capacity in highly specialized segments of business.

"RT Specialty is structured to align with the retail broker practice group verticals and to partner with the E&S carrier experts so that collectively we bring the best solutions to the insured for increasingly complex risks. Accelerated volume and greater complexity in risks are what's moving the needle," he said.

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*RT Specialty CEO Tim Turner says the firmest market he's seen is being driven by different factors this time*

Estimates of total industry premium volume coming through the wholesale channel vary because, in addition to traditional E&S classes written on a non-admitted basis, there are specialty classes including segments of workers comp, auto and excess casualty that have to be written on admitted paper.

As a rule of thumb, the percentage of total US commercial insurance industry premium written on a non-admitted basis was around 10 percent for the last decade after dropping from a record 15 percent in 2002 at the height of the last hard market.

Turner said that his firm thinks that the non-admitted share jumped two points to 12 percent in Q3 last year and was up to 13 or 14 percent by year-end.

That would suggest overall flow to non-admitted carriers increased 30-40 percent, without factoring in specialty admitted business.

"We added over 500 people in the past year just to handle it," said the executive.

### Standard lines retrenchment

As previously reported, the surge of business into the E&S sector has been driven by retrenchment from standard lines carriers amid increasing pain in multiple classes of business.

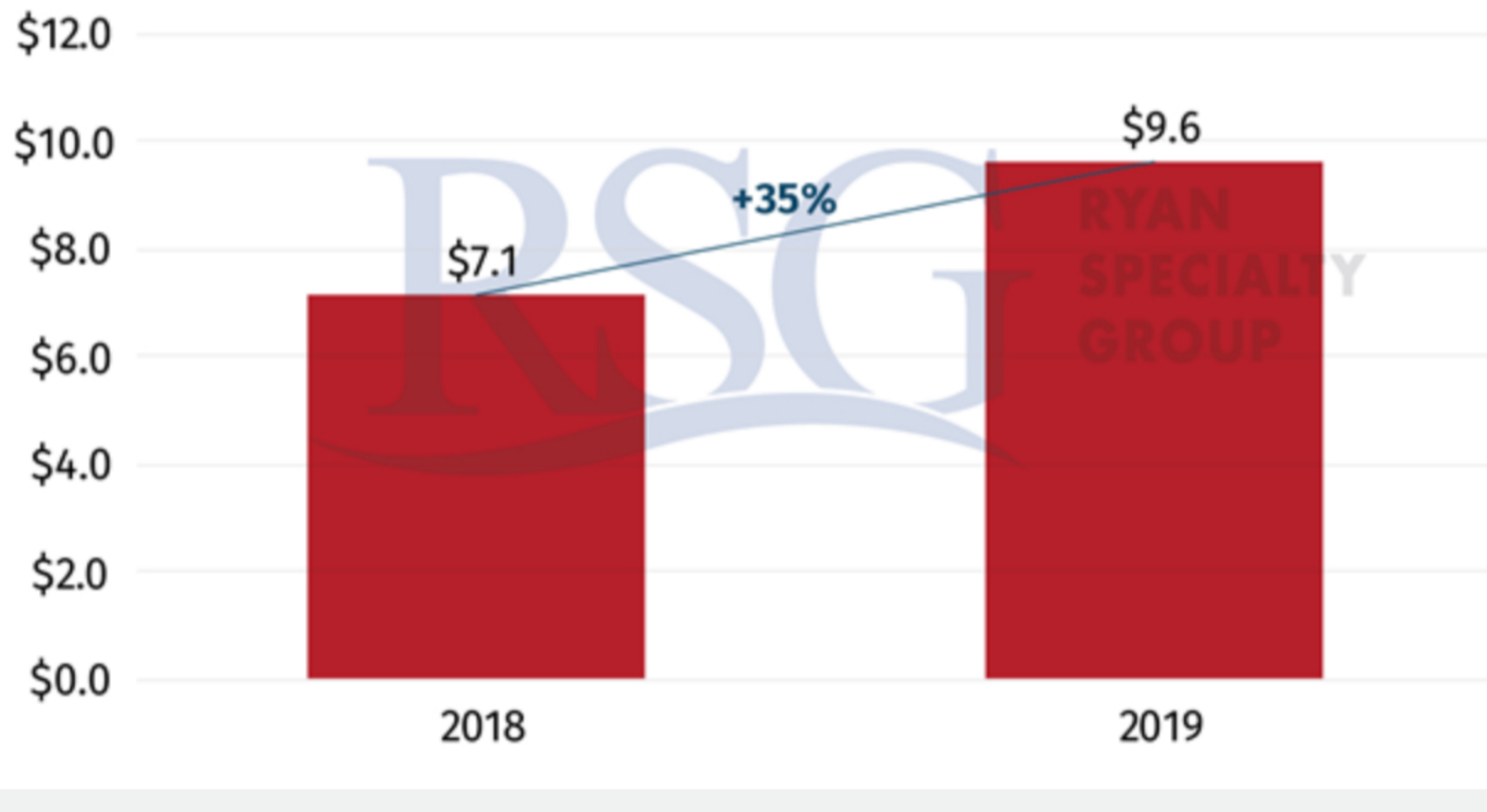
That has led to pockets of hardening spread across swathes of the US commercial insurance market.

Where retail brokers have been unable to find capacity or the right solution from standard lines carriers, they have been increasingly relying on their wholesale partners to meet the needs of their original clients.

Turner observed that premium growth in the E&S market is a function of rate increase and the increased flow of business into the sector.

He highlighted the shrinking of limits across the board, where major standard carriers have cut their line size from \$25mn of limit to just \$5mn or \$10mn across a wider group of insurance segments. "That automatically causes those accounts to come into our world," the executive noted.

## Ryan Specialty premium volume (bn)



Turner listed a number of classes that have been a source of concentrated pain for insurers, leading to the dumping of business.

"Those areas are usually the loss leaders in the reinsurance world. The reinsurers are saying to the admitted insurers you have to shed that business; it's the most unprofitable business to have.

"So standard markets shed that unprofitable business first and that pours into the non-admitted channel," he said.

As previously reported, among the hardest segments of the US commercial insurance market are real estate and habitational – across property and casualty, transportation, construction, healthcare, public D&O and life sciences, while E&S property has also seen significant correction over the last two years.

The social inflation phenomenon has especially applied to lead umbrellas, Turner observed.

"It doesn't have to be in higher hazard business. If you get hit with an auto claim, or a big GL claim in the lead umbrella, you're going to have to restructure the placement, and that stuff is pouring into the E&S market," he added.

Turner suggested that habitational was the only business class that floods into the E&S market "on both cylinders", with casualty and property both affected.

### The Insurer comment

The dramatic shift in the wholesale distribution landscape over the last decade means that the biggest brokers are likely to have seen a disproportionately large amount of the huge volume of business flowing into the E&S market.

The space is dominated by three giants (AmWINS, RSG/RT and CRC) with a significant gap in size to the other companies making up the top ten.

All three of the giants also have large MGA/MGU platforms that have been growing along with their wholesale brokerage units.

Smaller, specialty boutique firms are also playing an increasingly important role.

But the real momentum has been in transactional brokerage over the last year as retail brokers have increasingly turned to their wholesale partners to find solutions, technical expertise and capacity for risks that standard carriers are running away from.

And for the largest wholesalers, the scale and specialised expertise in the different verticals they have built during the soft market means they have a much bigger platform and broader capabilities to build off.

The big story in wholesale broking over the last decade has been consolidation – both of wholesale brokers through M&A and of wholesale relationships by retail brokers as they have narrowed panels to a handful of partners.

Both trends have been self-perpetuating. Started by the retail global giants, the process of panel consolidation has spread through almost all of the top 100 brokers in the US.

Where a decade ago a major retailer might have used several hundred wholesalers to access the E&S market, now most retailers will deal with just a handful on the majority of their business.

That, in turn, has fueled M&A as smaller wholesalers have been marginalised and rolled up by their larger competitors. As wholesale brokers have grown and broadened their capabilities, so the next tier of retailers have also trimmed down their wholesale relationships.

The sharp upturn in the market over the last 12 months has forced retailers to flood wholesalers with submissions. And the prevalence of consolidated panels means that, while there has been strong growth across the wider wholesale intermediary space, most of the business has been funnelled to a small number of very large firms.