Lexington
INSURANCE
Member of AIG

Surplus Lines Myths: Debunked

Old stereotypes die hard, and the antiquated notions that persist about the surplus lines market are no exception. Before insurance buyers and brokers can realize the full advantages that this market in general, and Lexington in particular deliver, they need to separate fact from fiction.

Myth #1: The surplus lines market is only for hard to place risks.

While surplus lines carriers insure risks that the admitted market will not, that's not the whole story.

The unique flexibility of rate and form afforded to surplus lines carriers is a significant benefit to anyone seeking tailored coverage for both typical and atypical risks. True, these carriers can write coverages that other carriers cannot – or will not – write. But they also bring exceptional flexibility to traditional risks, providing broad, manuscripted terms and conditions.

Surplus lines insurers are free to respond to risks in ways admitted insurers cannot; an advantage on any risk.

What's Real?

A sound insurer is not defined by its admitted or non-admitted status, but by the quality of its coverage and service and its ability to respond to the dynamic needs of insureds year after year. By this measure, Lexington stands at the top of the property and casualty marketplace, coupling expert underwriting and surplus lines flexibility with superior service and the reassurance of financial stability.

Myth #2: The surplus lines market is unregulated.

The surplus lines market is highly transparent. Every surplus lines carrier, Lexington included, is regulated in its state of domicile and must meet all standards set by that state's insurance regulator. In order to be an eligible surplus lines carrier in any other state, a carrier must also meet all eligibility requirements set forth by that state's regulator. Furthermore, consumer protection laws of each state apply to surplus lines insurers as well.

Myth #3: Surplus lines markets are financially riskier.

Some theorize that the high-risk nature of certain lines written by surplus lines carriers makes for a higher risk of financial failure among these insurers. In fact, 2013 marked the ninth year in a row that the surplus lines industry recorded no reported impairments.[1]

Of course, insurer solvency is a critical concern to the entire insurance industry. Hence, rather than judging a carrier based on admitted versus non-admitted status, those seeking financial stability should focus on finding a carrier with sound financial strength.

Not only is Lexington the leading U.S.- based surplus lines insurer in terms of direct written premium,[2] it has also maintained a strong policyholder surplus – increasing more than 20% during the past five years to almost $8 billion as of December 31, 2013.

Myth #4: State guaranty funds guarantee 100% protection from insurer solvencies.

State regulated guaranty funds do offer protection for insureds in the admitted market when their insurer is insolvent and unable to pay covered claims. However, state guaranty funds will not pay more than a statutory limit – typically $300,000. To most of Lexington's clientele this amount is immaterial.

An accurate assessment of carrier financial strength is in many ways a better indicator of the quality of the protection provided.

Surplus Lines Myths: Debunked

Myth #5: Surplus lines premium taxes are substantially higher than those in the admitted market.

Not true. Insureds are subject to premium taxes whether they are insured in the admitted or non-admitted markets. Generally, admitted market premium is taxed at 4 percent while non-admitted market premium taxes range from 3 to 6 percent.

However, unlike the tax imposed on premiums paid to admitted insurers, surplus lines premium tax is clearly reflected as a separate line item on an insured's invoice. Tax on admitted market premiums is rolled into the total premium charge, so it may not be evident to the insured. The itemization of the tax on surplus lines invoices is indicative of the high degree of transparency inherent in the surplus lines market.

Myth #6: Admitted Markets are the Most Innovative.

For the most part, admitted markets are "in a box" as far as the terms, conditions, and rates they can offer. The surplus lines market by contrast provides a liberated environment, allowing for more flexible forms and rates in which an insurer that has strong product development resoures, the right expertise – and entrepreneurial drive – can move quickly to meet market needs or respond to a catastrophic event, as Lexington has for more than four decades.

It's no myth that Lexington is one of the great innovators in insurance. We have a proven record of listening to our clients' needs and bringing to market critical new products – such as the CarbonCover® suite featuring coverages for the developing climate change and GHG emissions sector – to meet the needs of our insureds year in and year out.

Myth #7: Surplus Lines Placements are Overly Complex and Burdensome for Brokers.

While in the past this did contain a modicum of factuality, it was never substantially true of the brokerage professionals who dealt with surplus lines. In fact, licensed surplus lines brokers have been and continue to be well versed and nimble in dealing with the requirements of a surplus lines placement. But significantly, the additional work involved in a surplus lines placement is even less of a factor since the enactment into law of the Nonadmitted Reform and Reinsurance Act ("NRRA") as part of the Dodd Frank legislation in 2010. NRRA significantly simplifies surplus lines placements in many ways, including, among other things the home state rule which means that only the laws of the insured's home state applies to the transaction (as respects licensing, filing requirements, premium taxes, etc.) and the elimination of the due diligence (declinations) requirement as respects an "exempt commercial purchasers" as defined by the Act. A key point is that a majority of Lexington's insureds qualify as exempt commercial purchasers.

[1,2] 2013 Special Report U.S. Surplus Lines – Market Review. AM Best Company. September 2013.

Contact:

For more information, please contact www.lexingtoninsurance.com.

Lexington INSURANCE Member of AIG

Stay Connected with Lexington: